

*Defense Information Systems Agency
Working Capital Fund*

Chief Financial
Officer
Annual Financial
Statement
FY 1997

February 27, 1998

Defense Information Systems Agency

Working Capital Fund

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***DEFENSE INFORMATION
SYSTEMS AGENCY***

***DEFENSE-WIDE WORKING
CAPITAL FUND***

OVERVIEW

Overview

Overview

DEFENSE INFORMATION SYSTEMS AGENCY DEFENSE-WIDE WORKING CAPITAL FUND OVERVIEW OF THE REPORTING ENTITY

The Defense Information Systems Agency (DISA) oversees through delegation from the Comptroller, DOD, two Defense-Wide Working Capital Fund business activities: the Communications Information Services Activity (CISA) and Defense Megacenters (DMCs). The two business activities differ markedly in mission and composition as highlighted in the following discussion.

CISA

A. Description of Reporting Entity:

CISA provides communication and information services worldwide for DOD, the Executive Office of the President, our allies, and other authorized government users. The communication services purchased through CISA include voice, data, messaging, transport, video, and network management. The DISA-operated portion of CISA consists of voice, data, messaging, transport, and video services. The remainder of CISA represents procured communication and information services and equipment for the DMCs and other Defense components, and non-DOD customers that are not managed or operated by DISA.

The CISA is made up of two primary organizations; the Revolving Fund Division (DISA/DC3); and Defense Information Technology Contracting Organization (DITCO). DISA/DC3 is located in Washington, DC, and employs 15 people. DITCO has its headquarters at Scott AFB, IL; and three field offices located at Sembach AB, GE; Ft. Shafter, HI; and Elmendorf AB, AK. Over 300 people are assigned to DITCO. Additionally, the Management Analysis and Integral Controls Division at Huntsville, AL; the Allocation and Engineering Division of the DISN Service Center; and the Network Operations Centers at Scott AFB, IL and Columbus, OH are funded by the CISA. Over the last 25 years, the total CISA has grown from a \$298 million activity to one of approximately \$2 billion, a growth of 571 percent. Within DITCO, the administering agent for the fund, the CISA has grown from a one office \$1.6 million operation at Scott AFB, managed by the United States Air Force, to over a \$30 million operation with geographically dispersed processing locations in each major military theater worldwide.

Overview

B. Fiscal Year 1997 Financial Results and Financial Condition:

The CISA reported a loss of \$19 million for FY 1997, while the Accumulated Operating Result (AOR) declined to a negative balance of \$78 million. Current year cash decreased by \$41 million.

Net Operating Result (NOR). The current operating loss of \$19 million is based on revenues of \$1,996 million and expenses of \$2,015 million. This loss was incurred primarily due to the excess of \$27 million in overhead operating costs over revenue, a loss increase over the previous year of \$13 million. At the same time, better operating efficiency, productivity, and quality had a material positive impact on the results of operations of the major programs, which reduced losses from \$83 million in FY 1996 to \$5 million in FY 1997. Customer-managed programs, such as FTS2000, also showed a gain, \$2 million over the previous year.

Accumulated Operating Result (AOR). The AOR through September 30, 1997 reflects a cumulative loss of \$78 million, attributable to the operating loss.

Cash Management. Managing cash for the CISA is important to ensure financial resources are utilized in the most effective manner. While a large cash surplus is not desirable, sufficient cash must be maintained to ensure adequate budgetary resources to meet obligations. CISA continues to search for methods to improve cash. The examples of initiatives include continued work toward faster cash processing and posting, both for collection and disbursements and ever increasing discounts and little or no prompt payment penalties. These initiatives contribute to reducing the CISA's cash requirements and improving the management of cash held.

C. Sources of Funds:

The primary sources of funds for the CISA are DISA, the DMCs, the Military Departments (MilDeps), and the Federal Aviation Administration (FAA). FY 1997 Revenue totals are distributed as follows: DISA - \$211 million; DMCs - \$167 million; Army - \$297 million; Navy - \$203 million; Air Force - \$523 million; FAA - \$305 million; and Other - \$290 million. There was an overall decrease in customer sales between FY 1996 and FY 1997, from \$2.1 million to \$1.9 million, mostly attributable to Air Force sales, which decreased \$116 million. The decrease in Air Force, Navy, FAA, and Other were offset in part by increases in DISA and DMC sales, which together increased by \$31 million.

Overview

D. Selected Financial Data:

(also see Financial Attributes in the Supplement section)

	(\$ In millions)		
	FY 1997	FY 1996	Net Change
Statement of Income			
Revenue	\$1,996	\$2,102	<\$ 106>
Total Expenses	2,015	2,150	< 135>
Net Income	<u><\$ 19></u>	<u><\$ 48></u>	<u>\$ 29</u>
Balance Sheet			
Total Assets	\$ 510	\$ 542	<\$ 32>
Total Liabilities	568	572	< 4>
Equity	<u><\$ 58></u>	<u><\$ 30></u>	<u><\$ 28></u>
Cash Management			
Disbursements	\$ 2,008	\$ 2,009	<\$ 1>
Collections	1,967	2,106	139
Outlays	<u>\$ 41</u>	<u><\$ 97></u>	<u>\$ 138</u>

E. Financial Management Issues:

During FY 1998 and beyond, CISA financial management will focus on increasing the customer base, on building a modern technology infrastructure in the Defense Information Systems Network (DISN) to lower overall costs to our customers while improving the quality of service, and on searching for stream-lined and innovative business processes. All these initiatives will help to further integrate telecommunications and computer technology products, into seamless information technology services.

For the near future, several service changes are underway. The AUTODIN phase-out will continue during FY 1998 replaced by the Defense Message System (DMS). Replacement of the Defense Data Network, which is a general purpose, worldwide packet-switching network, by the DISN Internet Protocol (IP) Router Network and the Secret Internet Protocol Router Network (SIPRNET) is expected to be complete for the Continental United States, with conversion of overseas locations begun. The Defense Switched Network (DSN) which is a telecommunications link between military base/post/camp/station sites, is being phased into the DISN during FY 1998.

Overview

DISN is a sub-element of the Defense Information Infrastructure (DII) that functions as the DOD's consolidated worldwide enterprise-level telecommunications infrastructure that provided the end-to-end information transfer network for supporting military operations. DISN provides the warfighter with a full range of Government-controlled and secure information transfer services for exchanging voice, data and imagery. DISN also provides a set of networking support services, e.g., directory protocol translation and Network Management (NM) functions. The DISN in CONUS consists of contracts for DISN support, video teleconferencing services, wireless services, and DISN transmission and switching services. The DISN Europe and Pacific theater strategy is shaped by joint requirements, combined with service availability from industry. The DISN consolidates all DOD data, transmission systems, and networks into a worldwide, common-user seamless network. This network provides connectivity for the DMS, the Global Command and Control System (GCCS), and other value-added features of the DII.

Specifically this consolidation provides: multiplexer-based, dedicated and on-demand transmission services; router-based, high-speed, packet-switched data transfer services; integrated and responsive network management capabilities, as called for in the Command, Control, Communications, Computers and Intelligence (C4I) for the Warrior concept; and security protection for the network.

DMC

A. Description of the Reporting Entity:

The Defense Megacenters (DMCs) provide common-user computer processing and other value-added information technology support to customers. DISA developed and implemented the DOD Data Center Consolidation Plan, approved through the 1993 Base Realignment and Closure legislation, which consolidated the processing workload from the 194 data processing installations that existed in 1990 into 16 DMCs.

The population of the DMC Business Area as of September 30, 1997 was 3,460 Government personnel (3,417 civilian and 124 military). The customer base for the DMCs consists primarily of the several hundred customers. These customers are, for the most part, subordinate commands of the Military Services (Army, Navy, Air Force and USMC) and Defense Agencies (DFAS and DLA). To a far less extent there are some customers from non-DOD agencies such as Coast Guard, Veterans' Administration and the Bureau of Indian Affairs.

B. Fiscal Year 1997 Financial Results and Financial Condition:

There is continued improvement to report in the overall financial condition of the DMC Business Area. This improvement can be directly attributed to: a positive financial net operating result for FY 1997 operations; improvements in capital asset accountability and depreciation costing; finalization in using the Industrial Fund Accounting System (IFAS) as the sole operating accounts system; closure of prior year activity on legacy accounting systems; improvements in workload measuring and budgeting, and; improvement in application of accrual accounting and cash management.

Net Operating Result (NOR). The NOR for FY 1997 was \$37 million based on revenues of \$682 million and expenses of \$645 million. The positive result for FY 1997 was the second consecutive positive NOR.

The costs of doing business in FY 1997 included three very large cost areas with all other costs piling in comparison. Those three areas were contracts, personnel and, depreciation comprising well over 90.0% of total cost. These are the three areas where management actions can most influence the cost of operations and effect rate reductions. A major undertaking currently in progress is centralization/consolidation of maintenance and licensing contracts to achieve economies of scale across DMC's. Further consolidation and equipment optimizations will let us continue to meet budgeted reductions in personnel. Depreciation is a cost factor of equipment investment and optimization. However, those costs can be controlled by a good capital investment plan supported by sound economic analyses which clearly identify savings brought about by investments, and those savings must be realized in the form of actual cost reductions equal to or greater than any resultant depreciation costs.

Overview

Accumulated Operating Result (AOR). For the first fiscal year since the abbreviated year of inception, the DMC Business Area completed FY 1997 with a positive AOR. The AOR as of September 30, 1997 was \$18 million.

Capital Asset Inventory/Depreciation. Continued improvements were made in the use of the Defense Property Accounting System (DPAS) as the sole capital inventory and depreciation accounting system used by the DMCs. Enhancements in the DPAS/IFAS interface were accomplished to eliminate errors in the interface discovered during implementation in late FY 1996.

Standardized Accounting System. In FY 1997 all current year accounting activity was recorded on the Industrial Fund Accounting System (IFAS) for the first time. Prior year accounts on DBMS, GAFS, STANFINS, SABRES, and STARS-FL have been closed.

Accrual Accounting/Cash Management. Significant improvement at the DMC operating level in identifying and accruing billable costs has enhanced our ability to bill more thoroughly and frequently, improving collections and cash position. This has been further aided by improved workload - to - customer identification, allowing billing where, in prior years, the bill payer was unknown. FY 1997 cash collections were \$674 million, with disbursements of \$590 million, leaving positive cash position of \$84 million. This compares to a \$7 million positive cash position on September 30, 1996, and is the second consecutive year in which collections have exceeded disbursements.

C. Source of Funds:

The primary customers, thus the major sources of revenue, are the Military Services, the DFAS, and the DLA. The revenue sources are summarized:

DFAS	\$162 million
Air Force	\$144 million
Navy	\$104 million
DLA	\$ 88 million
Army	\$ 65 million
Marines	\$ 20 million
All Other	\$ 99 million

D. Selected Financial Data:

(Also see Financial Attributes in the Supplemental section.)

	(\$ In millions)		
	FY 1997	FY 1996	Net Change
Statement of Income			
Revenue	\$682	\$694	<\$ 12>
Total Expenses	645	646	< 1>
Net Income	<u>\$ 37</u>	<u>\$ 48</u>	<u><\$ 13></u>
Balance Sheet			
Total Assets	\$ 387	\$ 355	\$ 32
Total Liabilities	< 24>	< 32>	8
Equity	<u>\$ 411</u>	<u>\$ 387</u>	<u>\$ 24</u>
Cash Management			
Disbursements	\$ 590	\$ 701	<\$ 111>
Collections	674	708	34
Outlays	<u>\$ 84</u>	<u>\$ 7</u>	<u><\$ 77></u>

E. Financial Management Issues:

Rate Refinement/Reduction. The BES submissions for FY 1998 and FY 1999 included rate development based on “rate standardization”. This is the process of standardizing the services provided within a rate across applications and across DMC's. Several applications running at some DMCs require significant manual intervention for scheduling, restarts, recoveries, etc. Some applications run almost totally on automatic. Some customers still cause us to use reel tapes while others are on more economical cartridge tape. But the costs for all of these operations were rolled into the composite rates, causing the customers with the more economical workload to subsidize the customers with the more labor intensive, expensive workload. By unbundling, we cause the service to be, by and large, uniform at each DMC and for each application. Those costs associated with manual scheduling, recovery, etc. are not included in the basic rates. Rather, customers who require those services will pay additional costs for those services while customers not requiring those services will enjoy lower basic rates.

Modernization/Customer CDA Investment. Natural fallout of rate unbundling should be that the customers paying the additional direct costs for their less efficient applications would want to take steps to eliminate those costs. Ideally, they will work

Overview

with their CDAs to make the necessary application enhancements, convert from reel to cartridge, etc. so that they, over the course of time, will be required to pay less to DISA for their data processing services. That, in turn, will allow the DMC's to modernize and not be required to retain the expensive capability to operate the less efficient applications, thus reducing costs at the DMC's.

Workload/DMC Consolidation. FY 1998 will see the DMC Business Area initiate further consolidation of mainframe processing in order to further increase efficiencies and economies to remain a competitive entity with other data processing organizations. From the 16 DMC's currently performing MVS and UNISYS mainframe operations, the number will be reduced to six. Those six sites are at Mechanicsburg, PA, Columbus OH, St. Louis, MO, Oklahoma City, OK, Ogden, UT, and San Antonio, TX (UNISYS Legacy only). DMC Sacramento is being closed under direction of BRAC 95. The six mainframe sites plus the remaining nine former DMC's will continue to provide local customers with mid-tier and other ADP support. Consolidation action is planned for completion by June 1999. Since this effort is not sponsored by BRAC legislation, consolidation funding must be derived from operations and capital funding authority within the DMC Business Area. While this may have a short-term effect on the level to which the rate structure may be reduced, it is anticipated that this consolidation may save DOD well over \$1 billion dollars over a ten-year period.

License/Maintenance Contract Renewals. The DMC Business Area is striving to replace thousands of individual contracts awarded various vendors by the individual DMC's with centralized enterprise licenses and contracts. The goal is to achieve economies in license/contract administration, greater ease in balancing workload between operating sites, standardization across operating sites, and ready access, at no additional cost, to upgrades and transfer authorizations. This is an ongoing effort, the completion of which should coincide with, or precede, the completion of DMC/workload consolidation. An ancillary problem has arisen in conjunction with these negotiations, however. This effort, while promising the beneficial aspects just described, may result in little or no cost reduction – in fact costs may increase. In negotiations with UNISYS, for example, license and maintenance costs will increase by approximately \$40 million per year beginning in FY 1998. The full impact of cost changes cannot now be accurately predicted.

Year 2000 (Y2K). The DMC Business Area, as in all other data processing organizations, faces the specter of Y2K compliance issues. A team has been activated and empowered to coordinate Y2K issues both internally to DISA and with the customer community. A program aimed at an upgrade of our primary operating systems to insure Y2K compliance and capability has been funded and conversion is underway. In June 1999, all consolidation effort will cease (if not already completed) to insure full attention is given to completion of Y2K issues.

Limitation of the Financial Statements

The financial statements have been prepared to report the financial position and results of operations for the DISA-DWCF pursuant to the requirements of the CFO Act of 1990.

The statements have been prepared from the books and records of reporting entity in accordance with the formats prescribed by the OMB. However, the statements are different from the financial statements used to monitor and control budgetary resources that are prepared from the same books and records.

The statements should be read with the realization that they are for a sovereign entity, that unfunded liabilities reported in the financial statements cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

Overview

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***DEFENSE INFORMATION
SYSTEMS AGENCY***

***DEFENSE- WIDE WORKING
CAPITAL FUND***

***CONSOLIDATED PRINCIPAL
STATEMENTS***

Principal Statements

Principal Statements

Department of Defense
Defense Information Systems Agency - Consolidated Statements
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	<u>1997</u>	<u>1996</u>
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$180,855	\$144,658
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	432,880	401,924
(4) Interest Receivable	0	0
(5) Advances and Prepayments	80	80
(6) Other Federal (Intragovernmental) (Note 6)	9	2
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	2,698	16,804
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	1,378	5,960
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	0	0
e. Work in Process (Note 9)	34,739	21,824
f. Operating Materials/Supplies, Net (Note 10)	707	614
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	226,699	305,230
l. War Reserves	0	0
m. Other Entity Assets	0	0
n. Total Entity Assets	\$880,045	\$897,096
2. Non-Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$0	\$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense Information Systems Agency - Consolidated Statements
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS, Continued	<u>1997</u>	<u>1996</u>
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	\$0	\$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	<u>\$0</u>	<u>\$0</u>
 3. Total Assets	 <u><u>\$880,045</u></u>	 <u><u>\$897,096</u></u>
 LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$19,264	\$188,889
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	21	18
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	444,392	160,338
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	10,200	113,230
(b) Annual Accrued Leave	25,023	23,048
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	1
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	3,622
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental)		
Liabilities (Note 17)	28,508	50,100
c. Total Liabilities Covered by Budgetary Resources:	<u><u>\$527,408</u></u>	<u><u>\$539,246</u></u>

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense Information Systems Agency - Consolidated Statements
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES, Continued	<u>1997</u>	<u>1996</u>
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	18,040	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered by Budgetary Resources	<u>\$18,040</u>	<u>\$0</u>
6. Total Liabilities	<u>\$545,448</u>	<u>\$539,246</u>
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	\$0	\$7,455
b. Invested Capital	412,479	417,985
c. Cumulative Results of Operations	(59,842)	(67,590)
d. Other	0	0
e. Future Funding Requirements	(18,040)	0
f. Total Net Position	<u>\$334,597</u>	<u>\$357,850</u>
8. Total Liabilities and Net Position	<u><u>\$880,045</u></u>	<u><u>\$897,096</u></u>

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense Information Systems Agency - Consolidated Statements
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	<u>1997</u>	<u>1996</u>
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	\$31,906	\$30,396
2. Revenues from Sales of Goods and Services		
a. To the Public	412	170,816
b. Intragovernmental	2,449,349	2,587,493
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	16,288	7,237
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	<u>\$2,497,955</u>	<u>\$2,795,942</u>
EXPENSES		
9. Program or Operating Expenses (Note 23)	\$0	\$0
10. Cost of Goods Sold (Note 24)		
a. To the Public	404	136,231
b. Intragovernmental	2,329,091	2,512,373
11. Depreciation and Amortization	136,646	143,767
12. Bad Debts and Writeoffs	0	81
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	13,869	4,286
15. Total Expenses	<u>\$2,480,010</u>	<u>\$2,796,738</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	\$17,945	(\$796)
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>\$17,945</u>	<u>(\$796)</u>

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense Information Systems Agency - Consolidated Statements
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	<u>1997</u>	<u>1996</u>
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	\$357,850	\$347,304
20. Adjustments (Note 27)	<u>(10,198)</u>	<u>62,090</u>
21. Net Position, Beginning Balance, as Restated	\$347,652	\$409,394
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	17,945	(796)
23. Plus (Minus) Non Operating Changes (Note 28)	<u>(31,000)</u>	<u>(50,748)</u>
24. Net Position, Ending Balance	<u><u>\$334,597</u></u>	<u><u>\$357,850</u></u>

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense Information Systems Agency - Consolidated Statements
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	<u>1997</u>	<u>1996</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>\$17,945</u>	<u>(\$796)</u>
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used	(31,906)	30,396
3. Decrease (Increase) in Accounts Receivable	(33,583)	18,628
4. Decrease (Increase) in Other Assets	(8,432)	(19,859)
5. Increase (Decrease) in Accounts Payable	131,161	(72,863)
6. Increase (Decrease) in Other Liabilities	(126,267)	137,285
7. Depreciation and Amortization	136,646	143,767
8. Other Unfunded Expenses	31,906	(30,396)
9. Other Adjustments	(12,338)	14,832
10. Total Adjustments	<u>\$87,187</u>	<u>\$221,790</u>
11. Net Cash Provided (Used) by Operating Activities	<u>\$105,132</u>	<u>\$220,994</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment	\$0	\$132,497
13. Purchase of Property, Plant and Equipment	(62,502)	(250,011)
14. Sale of Securities	0	0
15. Purchase of Securities	0	0
16. Collection of Loans Receivable	0	0
17. Creation of Loans Receivable	0	0
18. Other Investing Cash Provided (Used)	<u>0</u>	<u>0</u>
19. Net Cash Provided (Used) by Investing Activities	<u>(\$62,502)</u>	<u>(\$117,514)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	\$0	\$0
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	0	35,501
22. Deduct:		
a. Withdrawals	0	0
b. Transfers of Cash to Others	<u>6,433</u>	<u>0</u>
23. Net Appropriations	<u>(\$6,433)</u>	<u>\$35,501</u>

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense Information Systems Agency - Consolidated Statements
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	<u>1997</u>	<u>1996</u>
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public	\$0	\$0
25. Repayments on Loans to the Public	0	0
26. Borrowing from the Treasury and the Federal Financing Bank	0	0
27. Repayments on Loans from the Treasury and the Federal Financing Bank	0	0
28. Other Borrowings and Repayments	<u>0</u>	<u>0</u>
29. Net Cash Provided (Used) by Financing Activities	<u>(\$6,433)</u>	<u>\$35,501</u>
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	\$36,197	\$138,981
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	<u>144,658</u>	<u>5,677</u>
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	<u><u>\$180,855</u></u>	<u><u>\$144,658</u></u>

Supplemental Disclosure of Cash Flow Information:

	<u>1997</u>	<u>1996</u>
33. Total Interest Paid	\$0	\$0

Supplemental Schedule of Financing and Investing Activity:

	<u>1997</u>	<u>1996</u>
34. Property and Equipment Acquired Under Capital Lease Obligations	\$0	\$0
35. Property Acquired Under Long-Term Financing Arrangements	\$0	\$0
36. Other Exchanges of Non-cash Assets or Liabilities	\$0	\$0

The accompanying notes are an integral part of these statements.

Principal Statements

The accompanying notes are an integral part of these statements.

***DEFENSE INFORMATION
SYSTEMS AGENCY***

***DEFENSE-WIDE
WORKING CAPITAL FUND***

***FOOTNOTES
TO THE
CONSOLIDATED
PRINCIPAL STATEMENTS***

Footnotes

**NOTES TO THE FISCAL YEAR 1997 PRINCIPAL STATEMENTS
DEFENSE-WIDE WORKING CAPITAL FUND
DEFENSE INFORMATION SYSTEMS AGENCY-CONSOLIDATED
PERIOD ENDING 30 SEPTEMBER 1997**

Note 1. Summary of Significant Accounting Policies:

A. Basis of Presentation:

These financial statements were prepared to report the financial position and results of operations of the Department of Defense (DOD), Defense-Wide Working Capital Fund (DWCF), Defense Information Systems Agency (DISA), Communications Information Services Activity (CISA) and Defense Megacenters (DMCs), as required by the Chief Financial Officers (CFO) Act of 1990 and other applicable legislation. The statements were prepared from the books and records of the activities in accordance with DOD guidance on the form and content of financial statements as adopted from OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements," and subsequent issues. These statements are prepared net of intra-agency eliminations (i.e., CISA to DMCs).

The Defense Finance and Accounting Service (DFAS)-Cleveland Center prepared these statements from information contained in DMC trial balances aggregated on the DFAS Central Data Base System and from information derived from the Finance and Accounting Management Information System (FAMIS) which supports the CISA. Amounts presented are rounded to the nearest thousand.

B. Reporting Entity:

Respective DISA-DWCF entities provide telecommunication and information systems, and data processing services to DOD and other federal government customers under a revolving fund concept. In FY 1996, these funds were consolidated into the DWCF and represented by fund symbol 97X4930.

C. Budgets and Budgetary Accounting:

The DISA-DWCF is financed on a reimbursable basis designed to provide an effective means of financing, budgeting, accounting for and controlling resources, as well as the costs of providing products and services used to support both peace and war time operations.

DOD expanded the use of business-like financial management practices through the establishment of the Defense Business Operations Fund (DBOF) on October 1, 1991. The DBOF employed revolving fund principles previously used by industrial and commercial-type activities.

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On December 11, 1996, DOD further refined the concept by eliminating the single fund and established four separate working capital funds. The working capital funds operate using financial principles which provide improved cost visibility and accountability to enhance business and cash management, as well as improve the decision making process. In FY 1997, DISA-DWCF activities recorded an operating gain of \$17,945 thousand.

SALES, COST OF SALES AND EXPENSES
AND NET OPERATING RESULTS BY ACTIVITY
(\$ In thousands)

<u>Activity</u>	<u>Sales</u>	<u>Cost of Sales and Expenses</u>	<u>Net Operating Results</u>
CISA	\$1,996,114	\$2,014,644	(\$18,530)
DMC	<u>681,914</u>	<u>645,439</u>	<u>36,475</u>
TOTAL	<u>\$2,678,028</u>	<u>\$2,660,083</u>	<u>\$17,945</u>

D. Basis of Accounting:

Transactions are recorded on a budgetary and accrual accounting basis. Accrual accounting recognizes revenue when earned and recognizes expenses when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting, through unique general ledger accounts, facilitates compliance with legal constraints and controls the use of federal funds.

E. Revenues and Other Financing Sources:

Reimbursements are recognized as revenue when earned. This revenue is used to offset the cost of products and services rendered, including an amount to recover the cost of overhead. The amount of revenue recognized cannot exceed the amount specified in orders from customers.

F. Accounting for Intra-Governmental Activities:

These statements are prepared net of intra-agency eliminations.

G. Funds with the U.S. Treasury and Cash:

Because cash control for DISA-DWCF entities is maintained by the Defense Logistics Agency (for all defense agencies), DMC collection and disbursement balances are transferred from the activity level to the defense agency corporate level at the beginning of each fiscal year for financial statement preparation purposes. As a result, financial statements at the activity level

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do not reflect cumulative cash balances. CISA's financial statements do not reflect the close out of prior year collections and disbursements. Therefore, they contain cumulative cash balances. Inconsistency between DMC and CISA cash reporting is under review.

H. Foreign Currency:

Not Applicable.

I. Accounts Receivable:

Accounts receivable consist of amounts owed to DISA-DWCF activities by other DOD and non-DOD agencies the majority of which are due from non-DOD agencies. An ongoing review of outstanding receivables does not support recording an allowance for uncollectible accounts.

J. Loans Receivable:

Not Applicable.

K. Inventories:

The DMCs are primarily service providers. Therefore, operating supplies are not a significant cost element.

L. Investments in U. S. Government Securities:

Not Applicable.

M. Property and Equipment:

Telecommunication and data processing equipment and software are stated at cost, less accumulated depreciation computed on a straight-line method over a five year period that begins when the equipment becomes operational. Routine maintenance is expensed when incurred.

N. Prepaid and Deferred Charges:

Not Applicable.

O. Leases:

Operating leases exist in both the CISA and DMCs and are expensed when incurred. There are no capital leases related to DISA-DWCF operations.

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P. Contingencies:

For the CISA, a contingent liability (Note 17) in the amount of \$28,508 thousand represents anticipated future costs of the Defense Information Systems Network (DISN) transition. Telecommunications customers of the Defense Communication System (DCS) programs will migrate to the DISN as it is brought on line.

Q. Accrued Leave:

The value of annual leave is increased as earned and reduced as leave is taken. Sick leave is expensed as taken. For the DMCs, sick leave balances at year end are closed out. For the CISA, accrued sick leave is not zeroed out for the fiscal year. This accounting treatment is being reviewed.

R. Equity:

CISA equity (Note 20) shows a negative position of \$58,203 thousand. Major contributing factors were: operating loss of \$18,530 thousand; prior period adjustment of \$8,255 thousand to reduce fixed assets that were inappropriately coded as capitalized equipment; and other prior period adjustments (Note 27), which resulted in a total equity reduction of \$10,123 thousand. DMC equity is shown as \$410,840 thousand in Note 20. This includes the effect of a positive \$17,706 thousand in "Cumulative Results of Operations".

S. Aircraft/Ship Crashes:

Not Applicable.

T. Treaties for Use of Foreign Bases:

Not Applicable.

U. Comparative Data:

The Principal Statements present comparative data for FY 1997 and FY 1996.

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Note 2. Fund Balances with Treasury (in thousands):

A. Fund and Account Balances:

	Entity Assets				
	Trust Funds	Revolving Funds	Appro- priated Funds	Other Fund Types	Total
Unobligated Balance Available:					
Available	\$0	\$0	\$0	\$0	\$0
Restricted					
Reserve For Anticipated Resources					
Obligated (but not expensed)		\$92,794			92,794
Unfunded Contract Authority					
Unused Borrowing Authority					
Working Capital Fund Balances		88,061			88,061
Treasury Balance	<u>\$0</u>	<u>\$180,855</u>	<u>\$0</u>	<u>\$0</u>	<u>\$180,855</u>

B. Other Information: None

Note 3. Cash, Foreign Currency and Other Monetary Assets (in thousands):

Not applicable.

Note 4. Investments, Net (in thousands): Not applicable.

Note 5. Accounts Receivable, Net (in thousands):

	(1) Gross Amount Due	(2) Allowance For Estimated Uncollectibles	(3) Allowance Method Used	(4) Net Amount Due
A. Entity Receivables:				
Intragovernmental	\$432,880	\$0		\$432,880
Governmental	2,698			2,698
B. Non-Entity Receivables:				
Intragovernmental	\$0	\$0		\$0
Governmental				

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C. Other Information: DFAS-CL: Entity Receivables, Intragovernmental, include Intrafund Elimination of (\$16,733).

Note 6. Other Federal (Intragovernmental) and Non-Federal (Governmental) Assets (in thousands):

A. Other Entity Assets

1. Intergovernmental

Advance to US Printing Office for printing service	<u>\$9</u>
Total	<u>\$9</u>

2. Governmental

B. Other Information: None

Note 7. Loans and Loan Guarantees, Non-Federal Borrowers (in thousands):

Not applicable.

Note 8. Inventory, Net (in thousands): Not applicable.

Note 9. Work in Process (in thousands):

	(1) Work In Process Amount	(2) Valuation Method
A. Work in Process:		
In House	<u>\$34,739</u>	<u>Actual Cost</u>
Total	<u>\$34,739</u>	

B. Other Information: Work in Process (WIP) of \$34,739 thousand includes accrued costs identifiable to a customer but unbillable because of insufficient funding. Of this amount, \$32,299 thousand is attributable to DFAS. Discussions with DFAS to resolve this issue are ongoing. The remaining \$2,440 thousand is spread across the spectrum of military departments/defense agencies and will either be collected as revenue or recognized as a loss during FY 1998 if deemed uncollectible.

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Note 10. Operating Materials and Supplies (OM&S), Net (in thousands):

	(1) OM&S Amount	(2) Allowance For Losses	(3) OM&S, Net	(4) Valuation Method
A. OM&S Categories:				
1. Held for Use	\$707	\$0	\$707	<u>Actual Cost</u>
2. Held in Reserve for Future Use				
3. Excess, Obsolete and Unserviceable				
Total	<u>\$707</u>	<u>\$0</u>	<u>\$707</u>	

B. Restrictions on operating materials and supplies: None

C. Other Information: None

Note 11. Stockpile Materials, Net (in thousands): Not applicable.

Note 12. Seized Property (in thousands): Not applicable.

Note 13. Forfeited Property, Net (in thousands): Not applicable.

Note 14. Goods Held Under Price Support and Stabilization Programs, Net (in thousands):
Not applicable.

Footnotes

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Note 15. Property, Plant and Equipment, Net (in thousands):

	(1)	(2)	(3)	(4)	(5)
	Depre- ciation Method	Service Life	Acquisition Value	Accumulated Depreciation	Net Book Value
<u>Classes of Fixed Assets</u>					
A. Land			\$0	\$0	\$0
B. Structures, Facilities, & Leasehold Improvements					
C. Military Equipment					
D. ADP Software	SL	1-5	72,512	49,528	22,984
E. Equipment	SL	1-5	851,487	681,087	170,400
F. Assets Under Capital Lease					
G. Other	SL	1-5	10,232	528	9,704
H. Natural Resources					
I. Construction-in-Progress			23,611		23,611
Total			<u>\$957,842</u>	<u>\$731,143</u>	<u>\$226,699</u>

J. Other Information: For the CISA, 'Other' represents funds expended for capital assets which are not presently installed or operational in any DCS program. Depreciation is recorded for these assets when they are installed and operational.

Depreciation expenses occur over a predetermined period (see below). Periodicity is as follows: equipment purchases other than ADPE, 10 years; general-purpose vehicles, ADPE and telecommunications hardware and software, 5 years; minor construction, 20 years. For equipment transferred into a business area, depreciation is based on the remaining book value. Depreciation of capital equipment is fully reflected in the operating costs and rates.

For the DMCs, in fourth quarter FY 1996, inventories were converted to the Defense Property Accounting System (DPAS). That conversion was audited and validated by the DISA Inspector General in their report "Audit of WESTHEM Proposed FYs 1992-1995 Depreciation Expense Adjustment," Final Report No. 97-A02, November 5, 1996. FY 1997 depreciation and capital accounting transaction and balance data was reconciled between DPAS and IFAS at year-end and were found to be in balance.

*Keys:

<u>Depreciation Methods</u>	<u>Range of Service Life</u>
SL - Straight Line	1-5 1 to 5 years
DD - Double-Declining Balance	6-10 6 to 10 years
SY - Sum of the Years' Digits	11-20 11 to 20 years
IN - Interest (sinking fund)	>20 Over 20 years
PR - Production (activity or use method)	
OT - Other (describe)	

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Note 16. Debt (in thousands): Not applicable.

Note 17. Other Liabilities (in thousands):

A. Other Liabilities Covered by Budgetary Resources:

	<u>Non-Current Liabilities</u>	<u>Current Liabilities</u>	<u>Total</u>
1. Intragovernmental			
a. Advances-Government	\$0	\$21	\$21
b. Advances-Loans			
c. Progress Payments-WIP-In-House			
d. Progress Payments-Direct Material			
e. Progress Payments-Other Government			
f. Military Labor			
g. Incomplete Voyage Revenue			
h. Undistributed Cash Disbursements			
i. Accrued Reserve Revenue			
j. Miscellaneous Other Liabilities			
Total	<u>\$0</u>	<u>\$21</u>	<u>\$21</u>
	<u>Non-Current Liabilities</u>	<u>Current Liabilities</u>	<u>Total</u>
2. Governmental			
a. Advances-Other	\$0	\$0	\$0
b. Accrued Expenses-Other			
c. Progress Payments-Contractor			
d. Miscellaneous Other Liabilities		28,508	28,508
e. Claims			
f. Undistributed Cash Disbursements			
Total	<u>\$0</u>	<u>\$28,508</u>	<u>\$28,508</u>

B. Other Information: Governmental amount represents a contingent liability established for anticipated future costs of the DISN transition. Telecommunications customers of DCS programs will migrate to the DISN as it is brought on line.

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C. Other Liabilities Not Covered by Budgetary Resources:

	<u>Non-Current Liabilities</u>	<u>Current Liabilities</u>	<u>Total</u>
1. Intragovernmental			
a. Canceled Budget Authority	\$0	\$0	\$0
b.			
c.			
Total	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
2. Governmental			
a. Canceled Budget Authority	\$0	\$0	\$0
b.			
c.			
Total	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

D. Other Information: Not applicable

Note 18. Leases (in thousands):

A. Entity As Lessee: Not applicable.

B. Entity As Lessor: Not applicable.

C. Other Information: Note 18 in the FY 1996 CFO financial statements showed lease data which was thought to be erroneous but was included until research could be completed. Results of that research found that DMCs have no capital lease liabilities - current or future. Necessary expense adjustments were made to the DMC accounts to properly clear the records.

CISA has operating leases for telecommunications circuitry on a month-to-month basis and software/hardware maintenance for current year from commercial providers. In FY 1997, costs related to operating leases are included in the cost of goods/services sold. Future payment calculation is not applicable.

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Note 19. Pensions and Other Actuarial Liabilities (in thousands):

A. Workers Compensation

DISA WCF	<u>\$18,040</u>
Total	<u>\$18,040</u>

B. Other Information: Future workers' compensation figures are provided by the Department of Labor. The liability for future workers' compensation (FWC) benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's, June 10, 1997 economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

1997

6.24 % in year 1
 5.82 % in year 2
 5.60 % in year 3
 5.45 % in year 4
 5.40 % in year 5 and thereafter

Note 20. Net Position (in thousands):

	<u>Revolving Funds</u>	<u>Trust Funds</u>	<u>Appropriated Funds</u>	<u>Total</u>
A. Unexpended Appropriations:				
1. Unobligated,				
a. Available	\$0	\$0	\$0	\$0
b. Unavailable				
2. Undelivered Orders				
B. Invested Capital	412,479			412,479
C. Cumulative Results of Operations	(59,842)			(59,842)
D. Other				
E. Future Funding Requirements	(18,040)			(18,040)
F. Total	<u>\$334,597</u>	<u>\$0</u>	<u>\$0</u>	<u>\$334,597</u>

G. Other Information: None

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Note 21. Taxes (in thousands): Not applicable.

Note 22. Other Revenues and Financing Sources (in thousands):

	<u>1997</u>	<u>1996</u>
A. Other Revenues and Financing Sources:		
1. Other Revenue	\$26	\$7,237
2. Imputed Financing Sources	16,262	
Total	<u>\$16,288</u>	<u>\$7,237</u>

B. Other Information: The \$16,262 represents the imputed financing for pensions and other retirements benefits. The Office of Personnel Management (OPM) is the administrative entity for pensions and other retirement benefits (ORB). OPM accounts for and reports the pension liability in the financial statements while the employer discloses the imputed financing. OPM actuaries provide the normal cost rates which are used to calculate the imputed financing.

Imputed Pension and Other Retirement Benefits (ORB) (in thousands):

CSRS/FERS Retirement	\$11,442
Health	4,825
Life Insurance	15

Note 23. Program or Operating Expenses (in thousands): Not applicable.

Note 24. Cost of Goods Sold (in thousands):

A. Cost of Services Sold:	
1. Beginning Work-in-Process	\$21,824
2. Plus: Operating Expenses	2,342,410
3. Minus: Ending Work-in-Process	34,739
4. Minus: Completed Work for Activity Retention	
Cost of Services Sold	<u>\$2,329,495</u>

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B. Cost of Goods Sold from Inventory (using Latest Acquisition Cost):

1. Beginning Inventory - L.A.C.	\$0
2. Less: Beginning Allowance for Unrealized Holding Gains (Losses)	
3. Plus: Purchases at Cost	
4. Plus: Customer Returns - Credit Given	
5. Plus: DLR Exchange Credits	
6. Less: Inventory Losses Realized	
7. Less: Ending Inventory - L.A.C.	
8. Plus: Ending Allowance for Unrealized Holding Gains (Losses)	
9. Less: Equity Transfers of Inventory to Others	
10. Plus: Equity Transfers of Inventory from Others	
11. Plus: Other	
a. Repair Cost Adjustment	
b. Beginning Allowance Adjustment from Prior Year	
12. Equals: Cost of Goods Sold from Inventory	<u>\$0</u>

C. Cost of Goods Sold from Inventory (using Historical Cost):

1. Beginning Inventory	
a. Plus: Purchases at Cost	\$0
b. Plus: Inventory Gains	
c. Minus: Inventory Losses	
2. Less: Ending Inventory	
Cost of Goods Sold	<u>\$0</u>

D. Other Information: DFAS-CL: Line A 2 includes Intrafund Eliminations of (\$196,335).

Note 25. Other Expenses (in thousands):

	<u>1997</u>	<u>1996</u>
A. Other Expenses:		
1. Pension, Health, and Life Insurance Benefits	\$16,262	
2. Losses on disposition of assets	(2,393)	\$4,286
Total	<u>\$13,869</u>	<u>\$4,286</u>

B. Other Information: This cost credit was based on the costing to FY 1997 of the remaining NBV of three Encore mid-tier platforms at Oklahoma City, Ogden and Columbus. The cost should have been charged to the prior period adjustment account so the cost was reversed. See Note 27.

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The \$16,262 represents the imputed expense for pensions and other retirement benefits. The Office of Personnel Management (OPM) is the administrative entity for pensions and other retirement benefits (ORB). OPM accounts for and reports the pension liability in their financial statements while the employer discloses the imputed expenses. OPM actuaries provide the normal cost rates which are used to calculate the imputed expenses.

Imputed Pension and Other Retirement Benefits (ORB) (in thousands):

CSRS/FERS Retirement	\$11,442
Health	4,825
Life Insurance	15

Note 26. Extraordinary Items (in thousands): Not applicable

Note 27. Prior Period Adjustments (in thousands):

A. Prior Period Adjustments:

1. Decrease due to fixed asset adjustments	(\$8,255)
2. Decrease of prior period obligations	(1,868)
3. Other prior year adjustments	(75)
Total	<u>(\$10,198)</u>

B. Other Information: The (\$8,255) thousand adjustment reported above represents items inappropriately capitalized. The (\$75) thousand adjustment shown above represents the net result of closing accounting activity on several legacy accounting systems (STANFINS, DBMS, STARS-FL, GAFS, SABRS, UDAPS-SP and legacy IFAS sites) and the "loss on disposal of equipment" discussed in Note 25. All accounting for the DMC business area is now on IFAS.

Footnote 28. Non-Operating Changes - (Transfers and Donations) (in thousands):

	<u>1997</u>	<u>1996</u>
A. Increases:		
1. Transfers-In:		
a. Transfers-Without Reimbursement-DWCF	\$685	\$135,692
b. Transfers-Without Reimbursement-Capital DWCF	(15,886)	
c.		
2. Unexpended Appropriations		
3. Donations Received		
4. Other Increases	2,816	
5. Total Increases	<u>(\$12,385)</u>	<u>\$135,692</u>

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	<u>1997</u>	<u>1996</u>
B. Decreases:		
1. Transfers-Out:		
a. Transfers to Govt. Agency Without Reimbursement	\$575	\$134,822
b. Transfers to All Others Without Reimbursement		
c. Transfers to Others Without Reimbursement-DWCF		
d. Transfers to Others Without Reimbursement-Capital		
2. Donations	18,040	51,618
3. Other Decreases	<u>\$18,615</u>	<u>\$186,440</u>
4. Total Decreases		
C. Net Non-Operating Changes (Transfers):	<u>(\$31,000)</u>	<u>(\$50,748)</u>

D. Other Information: The (\$15,886) credit above is under review by DFAS-Cleveland.

Note 29. Intrafund Eliminations (in thousands):

Schedule B: The DWCF-CISA sales component reports intrafund transactions (sales and services) within the overall DISA-DWCF (e.g., sales from CISA to DMCs).

The DWCF-DMC business area provides information services to the CISA via DITCO and other DMCs. These services include running applications on an IBM ES9221.

Selling Activity:

	<u>Column A Accounts Receivable</u>	<u>Column B Revenue</u>	<u>Column C Unearned Revenue</u>	<u>Column D Collections</u>
Supply Management	\$0	\$0	\$0	\$0
Distribution Depot				
Depot Maintenance				
Transportation Services				
Base Support				
Research and Development				
Information Services	2,437	29,242		29,242
Communication Services	14,296	167,093		164,290
Financial Services				
Commissary Operations				
Commissary Resale Stock				
Total	<u>\$16,733</u>	<u>\$196,335</u>	<u>\$0</u>	<u>\$193,532</u>

DEFENSE INFORMATION SYSTEMS AGENCY-CONSOLIDATED**Customer Activity:**

	<u>Column A</u> <u>Accounts Pay</u>	<u>Column B</u> <u>Expenses</u>	<u>Column C</u> <u>Advances</u>	<u>Column D</u> <u>Disbursements</u>
Supply Management	\$0	\$0	\$0	\$0
Distribution Depot				
Depot Maintenance				
Transportation Services				
Base Support				
Research and Development				
Information Services	14,296	186,198		183,395
Communication Services	2,437	10,137		10,137
Financial Services				
Commissary Operations				
Commissary Resale Stock				
Total	<u>\$16,733</u>	<u>\$196,335</u>	<u>\$0</u>	<u>\$193,532</u>

Schedule C: DISA Consolidated Working Capital Fund Sales to DoD Entities**Selling Activity:**

	<u>Column A</u> <u>Accounts</u> <u>Receivable</u>	<u>Column B</u> <u>Revenue</u>	<u>Column C</u> <u>Unearned</u> <u>Revenue</u>	<u>Column D</u> <u>Collections</u>
DISA Consolidated Working Capital Fund	\$325,594	\$2,087,881	\$0	\$2,051,867
Unearned Revenues				
Total	<u>\$325,594</u>	<u>\$2,087,881</u>	<u>\$0</u>	<u>\$2,051,867</u>

Customer Activity:

	<u>Column A</u> <u>Accounts</u> <u>Payable</u>	<u>Column B</u> <u>Expenses</u>	<u>Column C</u> <u>Advances</u>	<u>Column D</u> <u>Disbursements</u>
Department of the Army GF	\$49,305	\$327,126	\$0	\$303,134
Department of the Navy GF	34,741	236,247		227,637
Department of the Air Force GF	<u>59,675</u>	435,668		441,035
Army WCF	4,991	36,819		33,756
Air Force WCF	21,589	230,130		233,451
Defense WCFs	124,115	661,246		653,978
Navy WCFs	<u>19,713</u>	<u>90,864</u>		89,841
Other Defense Organizations	<u>11,465</u>	69,781		69,035
Total	<u>\$325,594</u>	<u>\$2,087,881</u>	<u>\$0</u>	<u>\$2,051,867</u>

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Schedule D: DISA Consolidated Working Capital Fund Sales to U.S. Government Entities

Selling Activity:

	Column A Accounts <u>Receivable</u>	Column B <u>Revenue</u>	Column C Unearned <u>Revenue</u>	Column D <u>Collections</u>
DISA Consolidated Working Capital Fund	\$200,475	\$359,558	\$0	\$368,965
Total	<u>\$200,475</u>	<u>\$359,558</u>	<u>\$0</u>	<u>\$368,965</u>

Customer Activity:

	Column A Accounts <u>Payable</u>	Column B <u>Expenses</u>	Column C <u>Advances</u>	Column D <u>Disbursements</u>
General Services Administration	\$3,861	\$1,001	\$0	\$919
State Department	11,745	8,620		4,744
Federal Aviation Agency	<u>114,619</u>	304,945		316,142
Department of Interior	876	1,631		2,113
Department of Treasury	<u>4,607</u>	862		2,312
NASA	<u>462</u>	615		259
U.S. Coast Guard	<u>2,968</u>	12,814		12,682
U.S. Department of Agriculture	<u>2,541</u>	1,062		47
Other U.S. Government Entities	<u>58,626</u>	27,788		29,689
Department of Transportation	<u>170</u>	220		58
Total	<u>\$200,475</u>	<u>\$359,558</u>	<u>\$0</u>	<u>\$368,965</u>

Note 30. Contingencies: See Note 17.

Note 31. Other Disclosures: At September 30, 1997 the cumulative differences between the Megacenters' activities' and Treasury collections and disbursements were approximately \$100 million and \$500 million respectively, netting to an overall variance of \$400 million. DFAS-Cleveland determined during the current fiscal year that approximately \$300 million of cross-disbursements were not recorded at the activity level since fiscal year 1994. Liabilities related to these disbursements can not be identified at this time. Therefore, the status of obligations, expenses, and liabilities related to these disbursements is undetermined at this time. DFAS-Cleveland is in the process of working with Operation Location Pensacola, DISA and the other DFAS centers in resolving the cross-disbursement issue. This issue will be resolved in fiscal year 1998.

***DEFENSE INFORMATION
SYSTEMS AGENCY***

***DEFENSE- WIDE WORKING
CAPITAL FUND***

***ELIMINATIONS PRINCIPAL
STATEMENTS***

Principal Statements

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Principal Statements

Department of Defense
Defense Information Systems Agency - Eliminations
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS

1997

1. Entity Assets:

a. Transactions with Federal (Intragovernmental) Entities:	
(1) Fund Balance with Treasury (Note 2)	\$0
(2) Investments, Net (Note 4)	0
(3) Accounts Receivable, Net (Note 5)	(16,733)
(4) Interest Receivable	0
(5) Advances and Prepayments	0
(6) Other Federal (Intragovernmental) (Note 6)	0
b. Transactions with Non-Federal (Governmental) Entities:	
(1) Investments (Note 4)	0
(2) Accounts Receivable, Net (Note 5)	0
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0
(4) Interest Receivable, Net	0
(5) Advances and Prepayments	0
(6) Other Non-Federal (Governmental) (Note 6)	0
c. Cash and Other Monetary Assets (Note 3)	0
d. Inventory, Net (Note 8)	0
e. Work in Process (Note 9)	0
f. Operating Materials/Supplies, Net (Note 10)	0
g. Stockpile Materials, Net (Note 11)	0
h. Seized Property (Note 12)	0
i. Forfeited Property, Net (Note 13)	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0
k. Property, Plant and Equipment, Net (Note 15)	0
l. War Reserves	0
m. Other Entity Assets	0
n. Total Entity Assets	<u>(16,733)</u>

2. Non-Entity Assets:

a. Transactions with Federal (Intragovernmental) Entities:	
(1) Fund Balance with Treasury (Note 2)	\$0
(2) Accounts Receivable, Net (Note 5)	0
(3) Interest Receivable, Net	0
(4) Other (Note 6)	0

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense Information Systems Agency - Eliminations
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS, Continued

1997

2. Non-Entity Assets:

b. Transactions with Non-Federal (Governmental) Entities:	
(1) Accounts Receivable, Net (Note 5)	\$0
(2) Interest Receivable, Net	0
(3) Other (Note 6)	0
c. Cash and Other Monetary Assets (Note 3)	0
d. Other Non-Entity Assets	0
e. Total Non-Entity Assets	<u>\$0</u>

3. Total Assets

(\$16,733)

LIABILITIES

4. Liabilities Covered by Budgetary Resources:

a. Transactions with Federal (Intragovernmental) Entities:	
(1) Accounts Payable	(\$16,733)
(2) Interest Payable	0
(3) Debt (Note 16)	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	0
b. Transactions with Non-Federal (Governmental) Entities:	
(1) Accounts Payable	0
(2) Accrued Payroll and Benefits	
(a) Salaries and Wages	0
(b) Annual Accrued Leave	0
(c) Severance Pay and Separation Allowance	0
(3) Interest Payable	0
(4) Liabilities for Loan Guarantees (Note 7)	0
(5) Lease Liabilities (Note 18)	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	0
c. Total Liabilities Covered by Budgetary Resources:	<u><u>(\$16,733)</u></u>

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense Information Systems Agency - Eliminations
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES, Continued

1997

5. Liabilities Not Covered by Budgetary Resources:

a. Transactions with Federal (Intragovernmental) Entities:

(1) Accounts Payable	\$0
(2) Debt (Note 16)	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0

b. Transactions with Non-Federal (Governmental) Entities:

(1) Accounts Payable	0
(2) Debt (Note 16)	0
(3) Lease Liabilities (Note 18)	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	18,040
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0

c. Total Liabilities Not Covered by Budgetary Resources \$18,040

6. Total Liabilities \$1,307

NET POSITION (Note 20)

7. Balances:

a. Unexpended Appropriations	\$0
b. Invested Capital	0
c. Cumulative Results of Operations	0
d. Other	0
e. Future Funding Requirements	(18,040)
f. Total Net Position	<u>(18,040)</u>

8. Total Liabilities and Net Position **(16,733)**

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense Information Systems Agency - Eliminations
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

1997

REVENUES AND FINANCING SOURCES

1. Appropriated Capital Used	\$0
2. Revenues from Sales of Goods and Services	
a. To the Public	0
b. Intragovernmental	(196,335)
3. Interest and Penalties, Non-Federal	0
4. Interest, Federal	0
5. Taxes (Note 21)	0
6. Other Revenues and Financing Sources (Note 22)	16,262
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0
8. Total Revenues and Financing Sources	<u>(180,073)</u>

EXPENSES

9. Program or Operating Expenses (Note 23)	\$0
10. Cost of Goods Sold (Note 24)	
a. To the Public	0
b. Intragovernmental	(196,335)
11. Depreciation and Amortization	0
12. Bad Debts and Writeoffs	0
13. Interest	
a. Federal Financing Bank/Treasury Borrowing	0
b. Federal Securities	0
c. Other	0
14. Other Expenses (Note 25)	16,262
15. Total Expenses	<u>(180,073)</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	\$0
17. Plus (Minus) Extraordinary Items (Note 26)	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>\$0</u>

The accompanying notes are an integral part of these statements.

**Department of Defense
Defense Information Systems Agency - Eliminations
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)**

1997

EXPENSES, Continued

19. Net Position, Beginning Balance, as Previously Stated	\$0
20. Adjustments (Note 27)	0
21. Net Position, Beginning Balance, as Restated	<u>\$0</u>
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	0
23. Plus (Minus) Non Operating Changes (Note 28)	<u>(18,040)</u>
24. Net Position, Ending Balance	<u><u>(\$18,040)</u></u>

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense Information Systems Agency - Eliminations
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

1997

CASH FLOWS FROM OPERATING ACTIVITIES

1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	\$0
Adjustments Affecting Cash Flow:	
2. Appropriated Capital Used	0
3. Decrease (Increase) in Accounts Receivable	0
4. Decrease (Increase) in Other Assets	0
5. Increase (Decrease) in Accounts Payable	0
6. Increase (Decrease) in Other Liabilities	0
7. Depreciation and Amortization	0
8. Other Unfunded Expenses	0
9. Other Adjustments	0
10. Total Adjustments	\$0
11. Net Cash Provided (Used) by Operating Activities	\$0

CASH FLOWS FROM INVESTING ACTIVITIES

12. Sale of Property, Plant and Equipment	\$0
13. Purchase of Property, Plant and Equipment	0
14. Sale of Securities	0
15. Purchase of Securities	0
16. Collection of Loans Receivable	0
17. Creation of Loans Receivable	0
18. Other Investing Cash Provided (Used)	0
19. Net Cash Provided (Used) by Investing Activities	\$0

CASH FLOWS FROM FINANCING ACTIVITIES

20. Appropriations (Current Warrants)	\$0
21. Add:	
a. Restorations	0
b. Transfers of Cash from Others	0
22. Deduct:	
a. Withdrawals	0
b. Transfers of Cash to Others	0
23. Net Appropriations	\$0

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Information Systems Agency - Eliminations
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	<u>1997</u>
CASH FLOWS FROM FINANCING ACTIVITIES, Continued	
24. Borrowing from the Public	\$0
25. Repayments on Loans to the Public	0
26. Borrowing from the Treasury and the Federal Financing Bank	0
27. Repayments on Loans from the Treasury and the Federal Financing Bank	0
28. Other Borrowings and Repayments	<u>0</u>
29. Net Cash Provided (Used) by Financing Activities	<u>\$0</u>
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	\$0
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	<u>0</u>
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	<u><u>\$0</u></u>

Supplemental Disclosure of Cash Flow Information:

1997

33. Total Interest Paid	\$0
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Supplemental Schedule of Financing and Investing Activity:

1997

34. Property and Equipment Acquired Under Capital Lease Obligations	\$0
35. Property Acquired Under Long-Term Financing Arrangements	\$0
36. Other Exchanges of Non-cash Assets or Liabilities	\$0

The accompanying notes are an integral part of these statements.

Principal Statements

The accompanying notes are an integral part of these statements.

***COMMUNICATIONS
INFORMATION SERVICES
ACTIVITY***

***DEFENSE- WIDE WORKING
CAPITAL FUND***

PRINCIPAL STATEMENTS

Principal Statements

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Principal Statements

Department of Defense
Communications Information Services Activity
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	<u>1997</u>	<u>1996</u>
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$96,874	\$138,225
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	383,777	354,744
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	9	2
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	563	318
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	0	0
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	0	0
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	28,747	48,646
l. War Reserves	0	0
m. Other Entity Assets	0	0
n. Total Entity Assets	<u>\$509,970</u>	<u>\$541,935</u>
2. Non-Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$0	\$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Communications Information Services Activity
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS, Continued

	<u>1997</u>	<u>1996</u>
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	\$0	\$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	<u>\$0</u>	<u>\$0</u>
3. Total Assets	<u><u>\$509,970</u></u>	<u><u>\$541,935</u></u>

LIABILITIES

4. Liabilities Covered by Budgetary Resources:

a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$67,418	\$49,050
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	463,313	463,430
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	179	1,503
(b) Annual Accrued Leave	8,755	7,512
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	28,508	50,100
c. Total Liabilities Covered by Budgetary Resources:	<u><u>\$568,173</u></u>	<u><u>\$571,595</u></u>

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Communications Information Services Activity
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES, Continued

1997

1996

5. Liabilities Not Covered by Budgetary Resources:

a. Transactions with Federal (Intragovernmental) Entities:

(1) Accounts Payable	\$0	\$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0

b. Transactions with Non-Federal (Governmental) Entities:

(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0

c. Total Liabilities Not Covered by Budgetary Resources

\$0	\$0
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6. Total Liabilities

\$568,173	\$571,595
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NET POSITION (Note 20)

7. Balances:

a. Unexpended Appropriations	\$0	\$0
b. Invested Capital	19,345	19,236
c. Cumulative Results of Operations	(77,548)	(48,896)
d. Other	0	0
e. Future Funding Requirements	0	0
f. Total Net Position	(58,203)	(29,660)

8. Total Liabilities and Net Position

\$509,970	\$541,935
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The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Communications Information Services Activity
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	<u>1997</u>	<u>1996</u>
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	\$0	\$0
2. Revenues from Sales of Goods and Services		
a. To the Public	412	725
b. Intragovernmental	1,995,676	2,101,014
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	26	607
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	<u>\$1,996,114</u>	<u>\$2,102,346</u>
EXPENSES		
9. Program or Operating Expenses (Note 23)	\$0	\$0
10. Cost of Goods Sold (Note 24)		
a. To the Public	404	733
b. Intragovernmental	1,996,623	2,124,835
11. Depreciation and Amortization	17,543	20,680
12. Bad Debts and Writeoffs	0	0
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	74	4,286
15. Total Expenses	<u>\$2,014,644</u>	<u>\$2,150,534</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	(\$18,530)	(\$48,188)
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>(\$18,530)</u>	<u>(\$48,188)</u>

The accompanying notes are an integral part of these statements.

Principal Statements

**Department of Defense
Communications Information Services Activity
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)**

	<u>1997</u>	<u>1996</u>
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	(\$29,660)	\$67,973
20. Adjustments (Note 27)	<u>(10,123)</u>	<u>(36,259)</u>
21. Net Position, Beginning Balance, as Restated	(\$39,783)	\$31,714
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(18,530)	(48,188)
23. Plus (Minus) Non Operating Changes (Note 28)	<u>110</u>	<u>(13,186)</u>
24. Net Position, Ending Balance	<u><u>(\$58,203)</u></u>	<u><u>(\$29,660)</u></u>

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Communications Information Services Activity
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	<u>1997</u>	<u>1996</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>(\$18,530)</u>	<u>(\$48,188)</u>
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used	0	0
3. Decrease (Increase) in Accounts Receivable	(29,278)	1,611
4. Decrease (Increase) in Other Assets	(7)	139
5. Increase (Decrease) in Accounts Payable	18,251	122,294
6. Increase (Decrease) in Other Liabilities	(21,673)	50,465
7. Depreciation and Amortization	17,543	20,680
8. Other Unfunded Expenses	0	0
9. Other Adjustments	0	(88,092)
10. Total Adjustments	<u>(\$15,164)</u>	<u>\$107,097</u>
11. Net Cash Provided (Used) by Operating Activities	<u>(\$33,694)</u>	<u>\$58,909</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment	\$0	\$132,497
13. Purchase of Property, Plant and Equipment	(7,657)	(94,359)
14. Sale of Securities	0	0
15. Purchase of Securities	0	0
16. Collection of Loans Receivable	0	0
17. Creation of Loans Receivable	0	0
18. Other Investing Cash Provided (Used)	<u>0</u>	<u>0</u>
19. Net Cash Provided (Used) by Investing Activities	<u>(\$7,657)</u>	<u>\$38,138</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	\$0	\$0
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	0	0
22. Deduct:		
a. Withdrawals	0	0
b. Transfers of Cash to Others	<u>0</u>	<u>0</u>
23. Net Appropriations	<u>\$0</u>	<u>\$0</u>

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Communications Information Services Activity
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	<u>1997</u>	<u>1996</u>
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public	\$0	\$0
25. Repayments on Loans to the Public	0	0
26. Borrowing from the Treasury and the Federal Financing Bank	0	0
27. Repayments on Loans from the Treasury and the Federal Financing Bank	0	0
28. Other Borrowings and Repayments	0	0
	<hr/>	<hr/>
29. Net Cash Provided (Used) by Financing Activities	\$0	\$0
	<hr/>	<hr/>
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	(\$41,351)	\$97,047
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	138,225	41,178
	<hr/>	<hr/>
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	\$96,874	\$138,225
	<hr/> <hr/>	<hr/> <hr/>

Supplemental Disclosure of Cash Flow Information:

	<u>1997</u>	<u>1996</u>
33. Total Interest Paid	\$0	\$0

Supplemental Schedule of Financing and Investing Activity:

	<u>1997</u>	<u>1996</u>
34. Property and Equipment Acquired Under Capital Lease Obligations	\$0	\$0
35. Property Acquired Under Long-Term Financing Arrangements	\$0	\$0
36. Other Exchanges of Non-cash Assets or Liabilities	\$0	\$0

The accompanying notes are an integral part of these statements.

Principal Statements

The accompanying notes are an integral part of these statements.

***COMMUNICATIONS
INFORMATION SERVICES
ACTIVITY***

***DEFENSE - WIDE WORKING
CAPITAL FUND***

***FOOTNOTES TO THE
PRINCIPAL STATEMENTS***

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**NOTES TO THE FISCAL YEAR 1997 PRINCIPAL STATEMENTS
DEFENSE - WIDE WORKING CAPITAL FUND
COMMUNICATIONS INFORMATION SERVICES ACTIVITY
PERIOD ENDING 30 SEPTEMBER 1997**

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation:

These financial statements were prepared to report the financial position and results of operations of the Department of Defense (DOD), Defense-Wide Working Capital Fund (DWCF), Defense Information Systems Agency (DISA), Communications Information Services Activity (CISA), as required by the Chief Financial Officers (CFO) Act of 1990 and other applicable legislation. The statements were prepared from the books and records of the activity in accordance with DOD guidance on the form and content of financial statements as adopted from OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements," and subsequent issues. Amounts presented are rounded to the nearest thousand.

B. Reporting Entity:

DOD expanded the use of business-like financial management practices through the establishment of the Defense Business Operations Fund (DBOF) on October 1, 1991. The DBOF employed revolving fund principles previously used by industrial and commercial-type activities. On December 11, 1996, DOD further refined the concept by eliminating the single fund and established four separate working capital funds. The working capital funds operate using financial principles which provide improved cost visibility and accountability to enhance business and cash management, as well as improve the decision making process.

The Department of Defense Industrial Fund - Communications Services Activity (CSIF) was established in 1965 by Congressional appropriation. The establishment of the Defense Industrial Fund activity followed the recommendation of a committee chaired by the Secretary of Defense to provide Department telecommunications requirements through a revolving fund. The committee further recommended, with Congressional approval, that the activity be established in a "fully competitive manner" such that its customers would be free to select the most technically competent and cost effective vendor (i.e., CSIF or a commercial telecommunications carrier) who met their needs. Upon incorporation into the DBOF on October 1, 1992, the CSIF was renamed the Communications Information Services Activity (CISA). The CISA under the DWCF remains a separate activity represented by fund symbol 97X4930.5F20.

C. Budgets and Budgetary Accounting:

The CISA is chartered to procure information technology, such as telecommunications and information systems from worldwide commercial service industries on behalf of its customers.

COMMUNICATIONS INFORMATION SERVICES ACTIVITY

Also, it procures and manages unique federal government owned systems, for example, the Defense Communication System (DCS). The CISA operates as a “commercial-like” not-for-profit corporation with an annual operating budget and board of directors, known as the Resource Management Committee (RMC). The CISA provides various types of products/services and recovers costs through different approaches. The following represents two ways in which telecommunications cost recovery rates are computed:

a. DISA-managed DCS. DCS program costs are recovered by charging customers for products and services based on published subscriber rates. These stabilized rates are developed by examining each communications system by theater, identifying system unique costs and then dividing the total theater cost by the agreed upon units of measure (e.g., weighted units, connections, data packets, minutes of use, precedence, percent share, etc.). During FY 1997, a rate stabilization fee and a fee-for-service surcharge were included in the direct cost recovery rates.

Beginning in FY 1998, the rate stabilization fee will be discontinued. Customers will be charged based on the amounts of products/services ordered and/or utilized. Subscriber and fee-for-service rates are updated annually. DISA-managed systems account for approximately 26 percent of the CISA sales in FY 1997.

b. Customer-managed Systems. Costs for customer-managed systems are recovered by passing along direct costs for the system, plus the fee-for-service surcharge. Generally, a single stabilized CISA rate is published for customer-managed systems, which accounts for about 74 percent of CISA sales in FY 1997.

D. Basis of Accounting:

Transactions are recorded on a budgetary and accrual accounting basis. Accrual accounting recognizes revenue when earned and recognizes expenses when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting through unique general ledger accounts facilitates compliance with legal constraints and controls the use of federal funds.

E. Revenues and Other Financing Sources:

CISA revenue is derived from customer reimbursements for products and services rendered. A catalog of products/services includes price schedules reflecting a variety of voice, data, video and bulk transmission telecommunications provided to DOD and other federal government customers. Price schedules cover more than 1,300 unique products/services established and categorized by DOD operations in military theaters worldwide.

F. Accounting for Intra-Governmental Activities:

See Consolidated DISA Footnote 29.

COMMUNICATIONS INFORMATION SERVICES ACTIVITY

G. Funds with the U.S. Treasury and Cash:

The Treasury functional cycle governing CISA encompasses various financial processes managed by DISA and the Defense Finance and Accounting Service (DFAS). The cycle includes: (1) processing invoices from vendors; (2) disbursing payments to vendors; (3) billing customers for products/services rendered plus surcharges; (4) collecting amounts billed. These financial statements do not reflect the close out of prior year collections and disbursements. Therefore, they contain cumulative cash balances.

H. Foreign Currency:

Not Applicable.

I. Accounts Receivable:

Accounts receivable are detailed in Note 5. CISA does not use an allowance for uncollectible accounts. Receivables are recorded at the gross amount due.

J. Loans Receivable:

Not Applicable.

K. Inventories:

Not Applicable.

L. Investments in U. S. Government Securities:

Not Applicable.

M. Property and Equipment:

CISA's assets primarily consist of telecommunications equipment which are detailed in Note 15 and carry a total acquisition cost of \$108,477 thousand. Current net book value of these assets is \$28,747 thousand and is based on a service life of five years and the straight-line depreciation method. Inventories are maintained using a perpetual inventory method, with validation by periodic physical inventories and statistical sampling methodologies. Depreciation is funded within CISA to assure full recovery of actual costs. Donated property and equipment are capitalized at book value at time of acquisition.

COMMUNICATIONS INFORMATION SERVICES ACTIVITY

N. Prepaid and Deferred Charges:

Not Applicable.

O. Leases:

CISA maintains operating leases for telecommunications circuitry and software/hardware maintenance from commercial providers. In FY 1997, costs related to operating leases are included in the cost of goods/services sold.

P. Contingencies:

A contingent liability (Note 17) in the amount of \$28,508 thousand represents anticipated future costs of the Defense Information System Network (DISN) transition. Telecommunications customers of DCS programs will migrate to the DISN as it is brought on line.

Q. Accrued Leave:

The value of annual leave is increased as earned and reduced as leave is taken. Sick leave is not zeroed out for the fiscal year. This accounting treatment is being reviewed.

R. Equity:

CISA equity (Note 20) shows a negative position of \$58,203 thousand. Major contributing factors were: operating loss of \$18,530 thousand; prior period adjustment of \$8,255 thousand to reduce fixed assets that were inappropriately coded as capitalized equipment; and, other prior period adjustments (Note 27) which resulted in a total equity reduction of \$10,123 thousand.

S. Aircraft/Ship Crashes:

Not Applicable.

T. Treaties for Use of Foreign Bases:

Not Applicable.

U. Comparative Data:

The Principal Statements present comparative data for FY 1997 and FY 1996.

COMMUNICATIONS INFORMATION SERVICES ACTIVITY

Note 2. Fund Balances with Treasury (in thousands):

A. Fund and Account Balances:

	Entity Assets				
	<u>Trust Funds</u>	<u>Revolving Funds</u>	<u>Appro- priated Funds</u>	<u>Other Fund Types</u>	<u>Total</u>
Unobligated Balance Available:					
Available	\$0	\$0	\$0	\$0	\$0
Restricted					
Reserve For Anticipated Resources					
Obligated (but not expensed)					
Unfunded Contract Authority					
Unused Borrowing Authority					
Working Capital Fund Balances		96,874			96,874
Treasury Balance	<u>\$0</u>	<u>\$96,874</u>	<u>\$0</u>	<u>\$0</u>	<u>\$96,874</u>

B. Other Information: None

Note 3. Cash, Foreign Currency and Other Monetary Assets (in thousands): Not applicable

Note 4. Investments, Net (in thousands): Not applicable

Note 5. Accounts Receivable, Net (in thousands):

	(1) Gross Amount <u>Due</u>	(2) Allowance For Estimated <u>Uncollectibles</u>	(3) Allowance Method <u>Used</u>	(4) Net Amount <u>Due</u>
A. Entity Receivables:				
Intragovernmental	\$383,777	\$0		\$383,777
Governmental	563			563
B. Non-Entity Receivables:				
Intragovernmental	\$0	\$0		\$0
Governmental				

C. Other Information: None

COMMUNICATIONS INFORMATION SERVICES ACTIVITY

Note 6. Other Federal (Intragovernmental) and Non-Federal (Governmental) Assets (in thousands):

A. Other Entity Assets

1. Intergovernmental

Advance to US Printing Office for printing service	\$9
--	-----

Total	\$9
-------	-----

2. Governmental

B. Other Information: None

Note 7. Loans and Loan Guarantees, Non-Federal Borrowers (in thousands): Not applicable

Note 8. Inventory, Net (in thousands): Not applicable

Note 9. Work in Process (in thousands): Not applicable

Note 10. Operating Materials and Supplies (OM&S), Net (in thousands): Not applicable

Note 11. Stockpile Materials, Net (in thousands): Not applicable

Note 12. Seized Property (in thousands): Not applicable

Note 13. Forfeited Property, Net (in thousands): Not applicable

Note 14. Goods Held Under Price Support and Stabilization Programs, Net (in thousands):
Not applicable

COMMUNICATIONS INFORMATION SERVICES ACTIVITY

Note 15. Property, Plant and Equipment, Net (in thousands):

	(1)	(2)	(3)	(4)	(5)
	Depre- ciation Method	Service Life	Acquisition Value	Accumulated Depreciation	Net Book Value
<u>Classes of Fixed Assets</u>					
A. Land			\$0	\$0	\$0
B. Structures, Facilities, & Leasehold Improvements					
C. Military Equipment					
D. ADP Software	SL	1-5	2,294	1,087	1,207
E. Equipment	SL	1-5	104,619	78,643	25,976
F. Assets Under Capital Lease					
G. Other			1,564		1,564
H. Natural Resources					
I. Construction-in-Progress					
Total			<u>\$108,477</u>	<u>\$79,730</u>	<u>\$28,747</u>

J. Other Information: Other activity represents funds expended for capital assets which are not presently installed or operational in any DCS program. Depreciation is recorded for these assets when they are installed and operational.

Depreciation expenses occur over a predetermined period (see below). Periodicity is as follows: equipment purchases other than ADPE, 10 years; general-purpose vehicles, ADPE and telecommunications hardware and software, 5 years; minor construction, 20 years. For equipment transferred into a business area, depreciation is based on the remaining book value. Depreciation of capital equipment is fully reflected in the operating costs and rates.

*Keys:

<u>Depreciation Methods</u>	<u>Range of Service Life</u>	
SL - Straight Line	1-5	1 to 5 years
DD - Double-Declining Balance	6-10	6 to 10 years
SY - Sum of the Years' Digits	11-20	11 to 20 years
IN - Interest (sinking fund)	>20	Over 20 years
PR - Production (activity or use method)		
OT - Other (describe)		

Note 16. Debt (in thousands): Not applicable

COMMUNICATIONS INFORMATION SERVICES ACTIVITY

Note 17. Other Liabilities (in thousands):

A. Other Liabilities Covered by Budgetary Resources:

	<u>Non-Current Liabilities</u>	<u>Current Liabilities</u>	<u>Total</u>
1. Intragovernmental			
a. Advances-Government	\$0	\$0	\$0
b. Advances-Loans			
c. Progress Payments-WIP-In-House			
d. Progress Payments-Direct Material			
e. Progress Payments-Other Government			
f. Military Labor			
g. Incomplete Voyage Revenue			
h. Undistributed Cash Disbursements			
i. Accrued Reserve Revenue			
j. Miscellaneous Other Liabilities			
Total	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	<u>Non-Current Liabilities</u>	<u>Current Liabilities</u>	<u>Total</u>
2. Governmental			
a. Advances-Other	\$0	\$0	\$0
b. Accrued Expenses-Other			
c. Progress Payments-Contractor			
d. Miscellaneous Other Liabilities		28,508	28,508
e. Claims			
f. Undistributed Cash Disbursements			
Total	<u>\$0</u>	<u>\$28,508</u>	<u>\$28,508</u>

B. Other Information: Amount represents a contingent liability established for anticipated future costs of the DISN transition. Telecommunications customers of DCS programs will migrate to the DISN as it is brought on line.

COMMUNICATIONS INFORMATION SERVICES ACTIVITY

C. Other Liabilities Not Covered by Budgetary Resources:

	<u>Non-Current Liabilities</u>	<u>Current Liabilities</u>	<u>Total</u>
1. Intragovernmental			
a. Cancelled Budget Authority	\$0	\$0	\$0
b.			
c.			
Total	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
2. Governmental	<u>Non-Current Liabilities</u>	<u>Current Liabilities</u>	<u>Total</u>
a. Cancelled Budget Authority	\$0	\$0	\$0
b.			
c.			
Total	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

D. Other Information: Not applicable

Note 18. Leases (in thousands):

CISA has operating leases for telecommunications circuitry on a month-to-month basis and software/hardware maintenance for current year from commercial providers. In FY 1997, costs related to operating leases are included in the cost of goods/services sold. Future payment calculation is not applicable.

Note 19. Pensions and Other Actuarial Liabilities (in thousands): Not applicable

COMMUNICATIONS INFORMATION SERVICES ACTIVITY

Note 20. Net Position (in thousands):

	<u>Revolving Funds</u>	<u>Trust Funds</u>	<u>Appropriated Funds</u>	<u>Total</u>
A. Unexpended Appropriations:				
1. Unobligated,				
a. Available	\$0	\$0	\$0	\$0
b. Unavailable				
2. Undelivered Orders				
B. Invested Capital	19,345			19,345
C. Cumulative Results of Operations	(77,548)			(77,548)
D. Other				
E. Future Funding Requirements				
F. Total	<u>(\$58,203)</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$58,203)</u>

G. Other Information: None

Note 21. Taxes (in thousands): Not applicable

Note 22. Other Revenues and Financing Sources (in thousands):

	<u>1997</u>	<u>1996</u>
A. Other Revenues and Financing Sources:		
Other Revenue	\$26	\$607
Total	<u>\$26</u>	<u>\$607</u>

B. Other Information: None

Note 23. Program or Operating Expenses (in thousands): Not applicable

COMMUNICATIONS INFORMATION SERVICES ACTIVITY

Note 24. Cost of Goods Sold (in thousands):

A. Cost of Services Sold:

1. Beginning Work-in-Process	\$0
2. Plus: Operating Expenses	1,997,027
3. Minus: Ending Work-in-Process	
4. Minus: Completed Work for Activity Retention	
Cost of Services Sold	\$1,997,027

B. Cost of Goods Sold from Inventory (using Latest Acquisition Cost):

1. Beginning Inventory - L.A.C.	\$0
2. Less: Beginning Allowance for Unrealized Holding Gains (Losses)	
3. Plus: Purchases at Cost	
4. Plus: Customer Returns - Credit Given	
5. Plus: DLR Exchange Credits	
6. Less: Inventory Losses Realized	
7. Less: Ending Inventory - L.A.C.	
8. Plus: Ending Allowance for Unrealized Holding Gains (Losses)	
9. Less: Equity Transfers of Inventory to Others	
10. Plus: Equity Transfers of Inventory from Others	
11. Plus: Other	
a. Repair Cost Adjustment	
b. Beginning Allowance Adjustment from Prior Year	
12. Equals: Cost of Goods Sold from Inventory	\$0

C. Cost of Goods Sold from Inventory (using Historical Cost):

1. Beginning Inventory	
a. Plus: Purchases at Cost	\$0
b. Plus: Inventory Gains	
c. Minus: Inventory Losses	
2. Less: Ending Inventory	
Cost of Goods Sold	\$0

D. Other Information: None

COMMUNICATIONS INFORMATION SERVICES ACTIVITY

Note 25. Other Expenses (in thousands):

	<u>1997</u>	<u>1996</u>
A. Other Expenses:		
Losses on disposition of assets	\$74	\$4,286
Total	<u>\$74</u>	<u>\$4,286</u>

B. Other Information: None

Note 26. Extraordinary Items (in thousands): Not applicable

Note 27. Prior Period Adjustments (in thousands):

A. Prior Period Adjustments:	
1. Decrease due to fixed asset adjustments	(\$8,255)
2. Decrease of prior period obligations	<u>(1,868)</u>
Total	<u><u>(\$10,123)</u></u>

B. Other Information: The (\$8,255) thousand adjustment reported above represents items inappropriately capitalized.

COMMUNICATIONS INFORMATION SERVICES ACTIVITY

Note 28. Non-Operating Changes - (Transfers and Donations) (in thousands):

	<u>1997</u>	<u>1996</u>
A. Increases:		
1. Transfers-In:		
a. Transfers-Without Reimbursement-DWCF	\$685	\$41,298
b. Transfers-Without Reimbursement-Capital DWCF		
c.		
2. Unexpended Appropriations		
3. Donations Received		
4. Other Increases		
5. Total Increases	<u>\$685</u>	<u>\$41,298</u>
	<u>1997</u>	<u>1996</u>
B. Decreases:		
1. Transfers-Out:		
a. Transfers to Govt. Agency Without Reimbursement	\$575	\$40,107
b. Transfers to All Others Without Reimbursement		
c. Transfers to Others Without Reimbursement-DWCF		
d. Transfers to Others Without Reimbursement-Capital		
2. Donations		
3. Other Decreases		14,377
4. Total Decreases	<u>\$575</u>	<u>\$54,484</u>
C. Net Non-Operating Changes (Transfers):	<u>\$110</u>	<u>(\$13,186)</u>
D. Other Information: None		

COMMUNICATIONS INFORMATION SERVICES ACTIVITY

Note 29. Intrafund Eliminations (in thousands): See Consolidated DISA Footnote 29.

Note 30. Contingencies: See Note 17.

Note 31. Other Disclosures: Not applicable

DEFENSE MEGACENTERS

***DEFENSE- WIDE WORKING
CAPITAL FUND***

PRINCIPAL STATEMENTS

Principal Statements

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Principal Statements

Department of Defense
Defense Megacenters
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	<u>1997</u>	<u>1996</u>
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$83,981	\$6,433
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	65,836	47,180
(4) Interest Receivable	0	0
(5) Advances and Prepayments	80	80
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	2,135	16,486
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	1,378	5,960
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	0	0
e. Work in Process (Note 9)	34,739	21,824
f. Operating Materials/Supplies, Net (Note 10)	707	614
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	197,952	256,584
l. War Reserves	0	0
m. Other Entity Assets	0	0
n. Total Entity Assets	<u>\$386,808</u>	<u>\$355,161</u>
2. Non-Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$0	\$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
 Defense Megacenters
 Statement of Financial Position
 As of September 30, 1997
 (Thousands)

ASSETS, Continued

	<u>1997</u>	<u>1996</u>
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	\$0	\$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	<u>\$0</u>	<u>\$0</u>
3. Total Assets	<u><u>\$386,808</u></u>	<u><u>\$355,161</u></u>

LIABILITIES

4. Liabilities Covered by Budgetary Resources:

a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	(\$31,421)	\$139,839
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	21	18
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	(18,921)	(303,092)
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	10,021	111,727
(b) Annual Accrued Leave	16,268	15,536
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	1
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	3,622
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Covered by Budgetary Resources:	<u>(\$24,032)</u>	<u>(\$32,349)</u>

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense Megacenters
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES, Continued

1997

1996

5. Liabilities Not Covered by Budgetary Resources:

a. Transactions with Federal (Intragovernmental) Entities:

(1) Accounts Payable	\$0	\$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0

b. Transactions with Non-Federal (Governmental) Entities:

(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0

c. Total Liabilities Not Covered by Budgetary Resources

<u>\$0</u>	<u>\$0</u>
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6. Total Liabilities

<u>(\$24,032)</u>	<u>(\$32,349)</u>
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NET POSITION (Note 20)

7. Balances:

a. Unexpended Appropriations	\$0	\$7,455
b. Invested Capital	393,134	398,749
c. Cumulative Results of Operations	17,706	(18,694)
d. Other	0	0
e. Future Funding Requirements	0	0
f. Total Net Position	<u>\$410,840</u>	<u>\$387,510</u>

8. Total Liabilities and Net Position

<u>\$386,808</u>	<u>\$355,161</u>
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The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense Megacenters
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	<u>1997</u>	<u>1996</u>
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	\$31,906	\$30,396
2. Revenues from Sales of Goods and Services		
a. To the Public	0	170,091
b. Intragovernmental	650,008	486,479
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	0	6,630
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	<u>\$681,914</u>	<u>\$693,596</u>
EXPENSES		
9. Program or Operating Expenses (Note 23)	\$0	\$0
10. Cost of Goods Sold (Note 24)		
a. To the Public	0	135,498
b. Intragovernmental	528,803	387,538
11. Depreciation and Amortization	119,103	123,087
12. Bad Debts and Writeoffs	0	81
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	(2,467)	0
15. Total Expenses	<u>\$645,439</u>	<u>\$646,204</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	\$36,475	\$47,392
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>\$36,475</u>	<u>\$47,392</u>

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense Megacenters
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	<u>1997</u>	<u>1996</u>
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	\$387,510	\$279,331
20. Adjustments (Note 27)	<u>(75)</u>	<u>98,349</u>
21. Net Position, Beginning Balance, as Restated	\$387,435	\$377,680
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	36,475	47,392
23. Plus (Minus) Non Operating Changes (Note 28)	<u>(13,070)</u>	<u>(37,562)</u>
24. Net Position, Ending Balance	<u><u>\$410,840</u></u>	<u><u>\$387,510</u></u>

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense Megacenters
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	<u>1997</u>	<u>1996</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>\$36,475</u>	<u>\$47,392</u>
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used	(31,906)	30,396
3. Decrease (Increase) in Accounts Receivable	(4,305)	17,017
4. Decrease (Increase) in Other Assets	(8,425)	(19,998)
5. Increase (Decrease) in Accounts Payable	112,910	(195,157)
6. Increase (Decrease) in Other Liabilities	(104,594)	86,820
7. Depreciation and Amortization	119,103	123,087
8. Other Unfunded Expenses	31,906	(30,396)
9. Other Adjustments	(12,338)	102,924
10. Total Adjustments	<u>\$102,351</u>	<u>\$114,693</u>
11. Net Cash Provided (Used) by Operating Activities	<u>\$138,826</u>	<u>\$162,085</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment	\$0	\$0
13. Purchase of Property, Plant and Equipment	(54,845)	(155,652)
14. Sale of Securities	0	0
15. Purchase of Securities	0	0
16. Collection of Loans Receivable	0	0
17. Creation of Loans Receivable	0	0
18. Other Investing Cash Provided (Used)	<u>0</u>	<u>0</u>
19. Net Cash Provided (Used) by Investing Activities	<u>(\$54,845)</u>	<u>(\$155,652)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	\$0	\$0
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	0	35,501
22. Deduct:		
a. Withdrawals	0	0
b. Transfers of Cash to Others	<u>6,433</u>	<u>0</u>
23. Net Appropriations	<u>(\$6,433)</u>	<u>\$35,501</u>

The accompanying notes are an integral part of these statements.

Principal Statements

**Department of Defense
Defense Megacenters
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)**

	<u>1997</u>	<u>1996</u>
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public	\$0	\$0
25. Repayments on Loans to the Public	0	0
26. Borrowing from the Treasury and the Federal Financing Bank	0	0
27. Repayments on Loans from the Treasury and the Federal Financing Bank	0	0
28. Other Borrowings and Repayments	<u>0</u>	<u>0</u>
29. Net Cash Provided (Used) by Financing Activities	<u>(\$6,433)</u>	<u>\$35,501</u>
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	\$77,548	\$41,934
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	<u>6,433</u>	<u>(35,501)</u>
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	<u><u>\$83,981</u></u>	<u><u>\$6,433</u></u>

Supplemental Disclosure of Cash Flow Information:

	<u>1997</u>	<u>1996</u>
33. Total Interest Paid	\$0	\$0

Supplemental Schedule of Financing and Investing Activity:

	<u>1997</u>	<u>1996</u>
34. Property and Equipment Acquired Under Capital Lease Obligations	\$0	\$0
35. Property Acquired Under Long-Term Financing Arrangements	\$0	\$0
36. Other Exchanges of Non-cash Assets or Liabilities	\$0	\$0

The accompanying notes are an integral part of these statements.

Principal Statements

The accompanying notes are an integral part of these statements.

DEFENSE MEGACENTERS

***DEFENSE - WIDE WORKING
CAPITAL FUND***

***FOOTNOTES TO THE
PRINCIPAL STATEMENTS***

**NOTES TO THE FISCAL YEAR 1997 PRINCIPAL STATEMENTS
DEFENSE-WIDE WORKING CAPITAL FUND
DEFENSE INFORMATION SYSTEMS AGENCY
DEFENSE MEGACENTERS
PERIOD ENDING 30 SEPTEMBER, 1997**

Note 1. Significant Accounting Policies

A. Basis of Presentation

These financial statements were prepared to report the financial position and results of operations of the Department of Defense (DOD), Defense-Wide Working Capital Fund (DWCF), Defense Information Systems Agency (DISA), Defense Megacenters (DMCs), as required by the Chief Financial Officers (CFO) Act of 1990 and other applicable legislation. The statements were prepared from the books and records of the activity in accordance with DOD guidance on the form and content of financial statements as adopted from OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements," and subsequent issues. Amounts presented are rounded to the nearest thousand.

The Defense Finance and Accounting Service (DFAS)-Cleveland Center prepared these statements from information contained in DMC Trial Balances aggregated on the DFAS Central Data Base System from consolidated general ledgers submitted by the Columbus, Denver and Indianapolis DFAS Centers and several direct-reporting DFAS Operating Locations (OPLOC). In FY 1997, all current year business transactions were recorded in the Industrial Fund accounting System (IFAS) under the direction of DFAS OPLOC Pensacola, FL.

B. Reporting Entity

The DMC business area was chartered in FY 1992 initially as the Defense Information Technology Services Organization (DITSO), then reorganized as Defense Information Services Organization (DISO), before final reorganization to the current structure. In FY 1993, DRMD 918/BRAC 93 directed that 59 Information Processing Centers (IPCs) belonging to the military services and defense agencies be capitalized into the DMC business area with all workload migrated to 16 IPCs chosen as DMCs. In FY 1997, the DMC business area organization consisted of headquarters elements in the National Capital Region, Ft. Ritchie, MD, and Denver CO. Additionally, the 16 DMCs are located in Dayton, OH, San Diego, CA, Rock Island, IL, Montgomery, AL, St. Louis, MO, Jacksonville, FL, Sacramento, CA, Huntsville, AL, San Antonio, TX, Denver, CO, Oklahoma City, OK, Warner Robins, GA, Chambersburg, PA, Ogden,

DEFENSE MEGACENTERS

UT, and Mechanicsburg, PA. Elements in the Pacific area are grouped as DISA-PAC with processing centers at Pearl Harbor, Guam, and Yokosuka, Japan. The fund symbol for the activity is 97X4930.5F30.

C. Budgets and Budgetary Accounting

The DMC business area annually produces a Budget Estimate Submission (BES) which details costs, staffing, projected workload, proposed rates and projected sources and amounts of revenue. The DMC business area is fully funded on a fee for service (FFS) basis. All revenues are derived by billing customers for data processing services. Rates are established per DOD directives and consist of separate, composite rates for: MVS CPU hours, I/O, UNISYS Supps, DASD, tape services, tape mounts, and cartridge mounts for all mainframe operations. For mid-tier and other ADP support, full cost recovery is achieved through customer reimbursement. Service levels and total funding requirements are documented annually with each customer through service level agreements. Cost restrictions are imposed on each DMC/operating entity through a formal Annual Operating Budget (AOB) to restrict the expense authority to levels that remain within total business area revenue. Rates are established annually in Program Budget Decision (PBD) 426.

D. Basis of Accounting

Transactions are recorded on a budgetary and accrual accounting basis. Accrual accounting recognizes revenue when earned and recognizes expenses when a liability is incurred without regard to receipt or payment of cash. In accordance with DOD policy, revenue recognized in the DMC business area cannot exceed the amount specified in a customer order. Budgetary accounting through unique general ledger accounts facilitates compliance with legal constraints and controls the use of federal funds.

E. Revenues and Other Financing Sources

DMC revenue is derived from customer reimbursements for data processing services rendered. A more expansive explanation of the process is provided in Note 1.C. (above). Primary customers include military departments and defense agencies.

F. Accounting for Intra-Governmental Activities

See consolidated DISA/CISA Footnote 29.

G. Funds with the U.S. Treasury and Cash

The Treasury functional cycle governing the DMCs encompasses various financial processes managed by DISA and the DFAS. The cycle includes: (1) provisioning services to customers; (2) invoicing customers with detailed workload and cost data; (3) billing customers;

DEFENSE MEGACENTERS

(4) collecting amounts billed; (5) reimbursing ADP support vendors for services/material provided.

H. Foreign Currency

Not Applicable.

I. Accounts Receivable

Accounts receivable consist of amounts owed to DMCs primarily by DOD organizations. DMCs do not use an allowance for uncollectible accounts.

J. loans Receivable:

Not Applicable.

K. Inventories:

The DMCs are primarily service providers. Therefore, operating supplies are not a significant cost element.

L. Investments in U.S. Government Securities:

Not Applicable.

M. Property and Equipment:

DMC assets consist primarily of data processing equipment and software and are detailed in Note 15. Acquisition value is \$849,365 thousand with accumulated depreciation of \$651,413 thousand and net book value of \$197,952 thousand.

N. Prepaid and Deferred Charges: Not Applicable**O. Leases:**

DMCs own substantially all of the ADPE and software assets used in operations. DMC facilities are primarily owned by the U.S. Government and located either on military bases or GSA-controlled facilities. The value of operating leases is expensed.

P. Contingencies:

Not Applicable.

DEFENSE MEGACENTERS**Q. Accrued Leave:**

Combined accrued leave and compensatory time earned liability is \$16,268 thousand.

R. Equity:

DMC equity is shown as \$410,840 thousand in Note 20. This includes the effect of a positive \$17,706 thousand in “Cumulative Results of Operations”.

S. Aircraft/Ship Crashes:

Not Applicable.

T. Treaties for Use of Foreign Bases:

Not Applicable.

U. Comparative Data:

The Principal Statements present comparative data for FY 1997 and FY 1996.

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Note 2. Fund Balances with Treasury (in thousands):

A. Fund and Account Balances:

	Entity Assets				
	<u>Trust Funds</u>	<u>Revolving Funds</u>	<u>Appropriated Funds</u>	<u>Other Fund Types</u>	<u>Total</u>
Unobligated Balance Available:					
Available	\$0	\$0	\$0	\$0	\$0
Restricted					
Reserve For Anticipated Resources					
Obligated (but not expensed)		92,794			92,794
Unfunded Contract Authority					
Unused Borrowing Authority					
Working Capital Fund Balances		(8,813)			(8,813)
Treasury Balance	<u>\$0</u>	<u>\$83,981</u>	<u>\$0</u>	<u>\$0</u>	<u>\$83,981</u>

B. Other Information: None

Note 3. Cash, Foreign Currency and Other Monetary Assets (in thousands): Not applicable

Note 4. Investments, Net (in thousands): Not applicable

Note 5. Accounts Receivable, Net (in thousands):

	(1) <u>Gross Amount Due</u>	(2) <u>Allowance For Estimated Uncollectibles</u>	(3) <u>Allowance Method Used</u>	(4) <u>Net Amount Due</u>
A. Entity Receivables:				
Intragovernmental	\$65,836	\$0		\$65,836
Governmental	2,135			2,135
B. Non-Entity Receivables:				
Intragovernmental	\$0	\$0		\$0
Governmental				

C. Other Information: None

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Note 6. Other Federal (Intragovernmental) and Non-Federal (Governmental) Assets (in thousands): Not applicable

Note 7. Loans and Loan Guarantees, Non-Federal Borrowers (in thousands):
Not applicable

Note 8. Inventory, Net (in thousands): Not applicable

Note 9. Work in Process (in thousands):

	(1) Work In Process Amount	(2) <u>Valuation Method</u>
A. Work in Process:		
1. In House	\$34,739	<u>Actual Cost</u>
2. Contractor		
3. Other Government Activities		
4. Government Furnished Materials		
Total	<u>\$34,739</u>	

B. Other Information: Work in Process (WIP) of \$34,739 includes accrued cost identifiable to a customer but unbillable because of insufficient funding. Of this amount, \$32,299 is attributable to DFAS. Discussions with DFAS to resolve this issue are ongoing. The remaining \$2,440 is spread across the spectrum of military departments/defense agencies and will either be collected as revenue or recognized as a loss during FY 1998 if deemed uncollectable.

Note 10. Operating Materials and Supplies (OM&S), Net (in thousands):

	(1) <u>OM&S Amount</u>	(2) <u>Allowance For Losses</u>	(3) <u>OM&S, Net</u>	(4) <u>Valuation Method</u>
A. OM&S Categories:				
1. Held for Use	\$707		\$707	<u>Actual Cost</u>
2. Held in Reserve for Future Use				
3. Excess, Obsolete and Unserviceable				
Total	<u>\$707</u>	<u>\$0</u>	<u>\$707</u>	

B. Restrictions on operating materials and supplies: Not applicable

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C. Other Information: None

Note 11. Stockpile Materials, Net (in thousands): Not applicable

Note 12. Seized Property (in thousands): Not applicable

Note 13. Forfeited Property, Net (in thousands): Not applicable

Note 14. Goods Held Under Price Support and Stabilization Programs, Net (in thousands): Not applicable

Note 15. Property, Plant and Equipment, Net (in thousands):

	(1)	(2)	(3)	(4)	(5)
	Depre-	Service	Acquisition	Accumulated	Net
	ciation	Life	Value	Depreciation	Book
	<u>Method</u>	<u>Life</u>	<u>Value</u>	<u>Depreciation</u>	<u>Value</u>
<u>Classes of Fixed Assets</u>					
A. Land			\$0	\$0	\$0
B. Structures, Facilities, & Leasehold Improvements					
C. Military Equipment					
D. ADP Software	SL	1-5	70,218	48,441	21,777
E. Equipment	SL	6-10	746,868	602,444	144,424
F. Assets Under Capital Lease					
G. Other	SL	1-5	8,668	528	8140
H. Natural Resources					
I. Construction-in-Progress	N/A	N/A	23,611		23,611
Total			<u>\$849,365</u>	<u>\$651,413</u>	<u>\$197,952</u>

J. Other Information: In fourth quarter FY 1996, inventories were converted to the Defense Property Accounting System (DPAS). That conversion was audited and validated by the DISA Inspector General in their report "Audit of WESTHEM Proposed Fys 1992-1995 Depreciation Expense Adjustment", Final Report No. 97-A02, November 5, 1996. FY 1997 depreciation and capital accounting transaction and balance data was reconciled between DPAS and IFAS at year end and were found to be in balance.

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*Keys:

<u>Depreciation Methods</u>	<u>Range of Service Life</u>	
SL - Straight Line	1-5	1 to 5 years
DD - Double-Declining Balance	6-10	6 to 10 years
SY - Sum of the Years' Digits	11-20	11 to 20 years
IN - Interest (sinking fund)	>20	Over 20 years
PR - Production (activity or use method)		
OT - Other (describe)		

Note 16. Debt: Not applicable**Note 17. Other Liabilities (in thousands):****A. Other Liabilities Covered by Budgetary Resources:**

	<u>Non-Current Liabilities</u>	<u>Current Liabilities</u>	<u>Total</u>
1. Intragovernmental			
a. Advances-Government	\$0	\$21	\$21
b. Advances-Loans			
c. Progress Payments-WIP-In-House			
d. Progress Payments-Direct Material			
e. Progress Payments-Other Government			
f. Military Labor			
g. Incomplete Voyage Revenue			
h. Undistributed Cash Disbursements			
i. Accrued Reserve Revenue			
j. Miscellaneous Other Liabilities			
Total	<u>\$0</u>	<u>\$21</u>	<u>\$21</u>
	<u>Non-Current Liabilities</u>	<u>Current Liabilities</u>	<u>Total</u>
2. Governmental			
a. Advances-Other	\$0	\$0	\$0
b. Accrued Expenses-Other			
c. Progress Payments-Contractor			
d. Miscellaneous Other Liabilities			
e. Claims			
f. Undistributed Cash Disbursements			
Total	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

DEFENSE MEGACENTERS

B. Other Information: None

C. Other Liabilities Not Covered by Budgetary Resources:

	<u>Non-Current Liabilities</u>	<u>Current Liabilities</u>	<u>Total</u>
1. Intragovernmental			
a. Cancelled Budget Authority	\$0	\$0	\$0
b.			
c.			
Total	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
2. Governmental			
a.	\$0	\$0	\$0
b.			
c.			
Total	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

D. Other Information: Not applicable

Note 18. Leases (in thousands): Not applicable

Note 19. Pensions and Other Actuarial Liabilities (in thousands): Not applicable

Note 20. Net Position (in thousands):

	<u>Revolving Funds</u>	<u>Trust Funds</u>	<u>Appropriated Funds</u>	<u>Total</u>
A. Unexpended Appropriations:				
1. Unobligated,				
a. Available	\$0	\$0	\$0	\$0
b. Unavailable				
2. Undelivered Orders				
B. Invested Capital	393,134			393,134
C. Cumulative Results of Operations	17,706			17,706
D. Other				
E. Future Funding Requirements				
F. Total	<u>\$410,840</u>	<u>\$0</u>	<u>\$0</u>	<u>\$410,840</u>

DEFENSE MEGACENTERS

G. Other Information: None

Note 21. Taxes (in thousands): Not applicable

Note 22. Other Revenues and Financing Sources (in thousands):

	<u>1997</u>	<u>1996</u>
A. Other Revenues and Financing Sources:		
1. Commissions - Western Union	\$0	\$0
2. Gain/Loss dairy herd		
3. Annual donations		
4. New accounts		
5. New facilities		
6. Miscellaneous income		6,630
Total	<u>\$0</u>	<u>\$6,630</u>

B. Other Information: None

Note 23. Program or Operating Expenses (in thousands): Not applicable

DEFENSE MEGACENTERS
Note 24. Cost of Goods Sold (in thousands):**A. Cost of Services Sold:**

1. Beginning Work-in-Process	\$21,824
2. Plus: Operating Expenses	541,718
3. Minus: Ending Work-in-Process	34,739
4. Minus: Completed Work for Activity Retention	
Cost of Services Sold	<u><u>\$528,803</u></u>

B. Cost of Goods Sold from Inventory (using Latest Acquisition Cost):

1. Beginning Inventory - L.A.C.	\$0
2. Less: Beginning Allowance for Unrealized Holding Gains (Losses)	
3. Plus: Purchases at Cost	
4. Plus: Customer Returns - Credit Given	
5. Plus: DLR Exchange Credits	
6. Less: Inventory Losses Realized	
7. Less: Ending Inventory - L.A.C.	
8. Plus: Ending Allowance for Unrealized Holding Gains (Losses)	
9. Less: Equity Transfers of Inventory to Others	
10. Plus: Equity Transfers of Inventory from Others	
11. Plus: Other	
a. Repair Cost Adjustment	
b. Beginning Allowance Adjustment from Prior Year	
12. Equals: Cost of Goods Sold from Inventory	<u><u>\$0</u></u>

C. Cost of Goods Sold from Inventory (using Historical Cost):

1. Beginning Inventory	
a. Plus: Purchases at Cost	\$0
b. Plus: Inventory Gains	
c. Minus: Inventory Losses	
2. Less: Ending Inventory	
Cost of Goods Sold	<u><u>\$0</u></u>

D. Other Information: None

DEFENSE MEGACENTERS
Note 25. Other Expenses (in thousands):

	<u>1997</u>	<u>1996</u>
A. Other Expenses		
Loss on Disposition of Assets	<u>(\$2,467)</u>	<u>\$0</u>
Total		<u>\$0</u>
<u>(\$2,467)</u>		

B. Other Information: This cost credit was based on the costing to FY 1997 of the remaining NBV of three Encore mid-tier platforms at Oklahoma City, Ogden and Columbus. The cost should have been charged to the prior period adjustment account so the cost was reversed. See Note 27.

Note 26. Extraordinary Items (in thousands): Not applicable**Note 27. Prior Period Adjustments (in thousands):****A. Prior Period Adjustments:**

Other	<u>(\$75)</u>
Total	<u><u>(\$75)</u></u>

B. Other Information: Prior period adjustments shown above are the net result of closing accounting activity on several legacy accounting systems (STANFINS, DBMS, STARS-FL, GAFS, SABRS, UDAPS-SP and legacy IFAS sites) and the “loss on desposal of equipment” discussed in Note 25. All accounting for the DMC business area is now on IFAS.

Note 28. Non-Operating Changes - (Transfers and Donations) (in thousands):

	<u>1997</u>	<u>1996</u>
A. Increases:		
1. Transfers-In:		
a. Transfers-Without Reimbursement- NWCF	\$0	\$94,394
b. Transfers-Without Reimbursement-Capital NWCF	(15,886)	
c.		
2. Unexpended Appropriations		
3. Donations Received		
4. Other Increases	2,816	
5. Total Increases	<u><u>(\$13,070)</u></u>	<u><u>\$94,394</u></u>

DEFENSE MEGACENTERS

	<u>1997</u>	<u>1996</u>
B. Decreases:		
1. Transfers-Out:		
a. Transfers to Govt. Agency Without Reimbursement	\$0	\$94,715
b. Transfers to All Others Without Reimbursement		
c. Transfers to Others Without Reimbursement- NWCF		
d. Transfers to Others Without Reimbursement-Capital		
2. Donations		
3. Other Decreases		37,241
4. Total Decreases	<u>\$0</u>	<u>\$131,956</u>
C. Net Non-Operating Changes (Transfers):	<u>(\$13,070)</u>	<u>(\$37,562)</u>

D. Other Information: The (\$15,886) credit above is under review by DFAS-Cleveland.

Note 29. Intrafund Eliminations (in thousands): See Consolidated DISA/CISA Footnote 29.

Note 30. Contingencies: Not applicable

Note 31. Other Disclosures: DFAS-CL: At September 30, 1997 the cumulative differences between the Megacenter activities' and Treasury collections and disbursements were approximately \$100 million and \$500 million respectively, netting to an overall variance of \$400 million. DFAS-Cleveland determined during the current fiscal year that approximately \$300 million of cross-disbursements were not recorded at the activity level since fiscal year 1994. Liabilities related to these disbursements can not be identified at this time. Therefore, the status of obligations, expenses, and liabilities related to these disbursements is undetermined at this time. DFAS-Cleveland is in the process of working with Operation Location Pensacola, DISA and the other DFAS centers in resolving the cross-disbursement issue. This issue will be resolved in fiscal year 1998.

***DEFENSE INFORMATION
SYSTEMS AGENCY***

***DEFENSE-WIDE WORKING
CAPITAL FUND***

***SUPPLEMENTAL FINANCIAL
AND MANAGEMENT
INFORMATION***

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**Program Performance Measures
Communications Information Services Activity
Financial Attributes
(\$ in millions)**

Operating Costs Attribute

	FY 1997	FY 1996
Total Costs and Expense	\$2,015	\$2,150
Revenues and Reimbursements	1,996	2,102
Net Operating Costs	(19)	(48)
Percentage of Revenue	(.95%)	(2.28%)
Difference between Percentage	1.33	0

Operating Results Attribute

	FY 1997	FY 1996
Revenues		
Federal Sources	\$1,996	\$2,101
Public Sources	0	1
Other	0	0
Total Revenue	\$1,996	\$2,102
Expense and Losses	\$2,015	\$2,150
Net Operating Income (Deficit)	(19)	(48)

Operating Obligations Attribute

	FY 1997	FY 1996
Total Current Assets	\$481	\$493
Total Current Liabilities	568	572
Net Operating Costs	0.85	0.86

Financial Condition Attribute

	FY 1997	FY 1996
Total Assets	\$510	\$542
Total Liabilities	568	572
Assets to Debt Ratio	0.90	0.95

Program Performance Measures

This section is designed to help you better understand the information presented above.

Operating Cost Attribute is the percentage or decrease in the net operating cost of the activity from one year to another. It serves as an indicator for the trend of the activity's operating costs.

Operating Results Attribute is measured by calculating the difference between an activity's total revenue and its expense.

Operating Obligations Attribute is a measure of an activity's ability to pay its obligations that will be due within a year. It is computed by dividing total current assets by total liabilities. A ratio of less than "1" indicates that current assets are not adequate to meet current liabilities.

Financial Condition Attribute evaluates the activity's ability to withstand losses without impairing equity. It is computed by dividing total assets by total liabilities. The higher the ratio, the better.

**Program Performance Measures
Defense Megacenters
Financial Attributes
(\$ in millions)**

Operating Costs Attribute

	FY 1997	FY 1996
Total Costs and Expense	\$645	\$646
Revenues and Reimbursements	682	694
Net Operating Costs	37	48
Percentage of Revenue	5.43%	6.92%
Difference between Percentage	(1.49)	0

Operating Results Attribute

	FY 1997	FY 1996
Revenues		
Federal Sources	\$682	\$694
Public Sources	0	0
Other	0	0
Total Revenue	\$682	\$694
Expense and Losses	\$645	\$646
Net Operating Income (Deficit)	37	48

Operating Obligations Attribute

	FY 1997	FY 1996
Total Current Assets	\$189	\$99
Total Current Liabilities	(24)	(32)
Curr Asset to Curr Liabilities Ratio	7.88	-3.09

Financial Condition Attribute

	FY 1997	FY 1996
Total Assets	\$387	\$355
Total Liabilities	(24)	(32)
Assets to Debt Ratio	-16.13	-11.09

Program Performance Measures

This section is designed to help you better understand the information presented above.

Operating Cost Attribute is the percentage or decrease in the net operating cost of the activity from one year to another. It serves as an indicator for the trend of the activity's operating costs.

Operating Results Attribute is measured by calculating the difference between an activity's total revenue and its expense.

Operating Obligations Attribute is a measure of an activity's ability to pay its obligations that will be due within a year. It is computed by dividing total current assets by total liabilities. A ratio of less than "1" indicates that current assets are not adequate to meet current liabilities.

Financial Condition Attribute evaluates the activity's ability to withstand losses without impairing equity. It is computed by dividing total assets by total liabilities. The higher the ratio, the better.

***DEFENSE INFORMATION
SYSTEMS AGENCY***

***DEFENSE-WIDE WORKING
CAPITAL FUND***

AUDIT OPINION



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

February 27, 1998

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND
CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
DIRECTOR, DEFENSE INFORMATION SYSTEMS AGENCY

SUBJECT: Disclaimer of Opinion on the Defense Information Systems Agency
Defense-Wide Working Capital Fund Financial Statements for FY 1997
(Project No. 8FH-2003)

The Chief Financial Officers (CFO) Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General and prescribes the responsibilities of management and auditors for the financial statements, internal controls, and compliance with laws and regulations. Fund managers are responsible for establishing and maintaining an internal control structure and for complying with laws and regulations applicable to the Defense Information Systems Agency Defense-Wide Working Capital Fund (the Fund). Our responsibility is to render an opinion on the financial statements based on our audit, and to determine whether internal controls are adequate and whether the Fund complied with applicable laws and regulations.

Before FY 1992, the DoD operated a significant number of commercial and industrial facilities under a revolving fund concept. In FY 1992, the revolving funds were consolidated to form the Defense Business Operations Fund (DBOF). The Inspector General, DoD, was responsible for auditing and rendering an opinion on the DBOF consolidated financial statements. In December 1996, the Under Secretary of Defense (Comptroller) restructured the DBOF into separate working capital funds. The Inspector General, DoD, is responsible for auditing and rendering an opinion on the financial statements, for FY 1997 and subsequent years, of the working capital fund reporting entities formerly reported under the DBOF.

Disclaimer of Opinion. We were unable to render an opinion on the Fund's Consolidated Financial Statements for FYs 1997 and 1996. Deficiencies in DoD accounting systems resulted in substantial undistributed collections and undistributed disbursements for the Defense Megacenters. The undistributed amounts were allocated to the Accounts Receivable balance (49 percent of total assets) and the Accounts Payable balance (85 percent of total liabilities). As a result, significant portions of the balances were unverifiable. In addition, we were unable to reconcile the beginning and ending consolidated balances for the Property, Plant, and Equipment account (26 percent of total assets). We requested that Defense Information Systems Agency personnel review the financial statement balances and explain changes. Personnel were unable to reconcile the changes shown on the financial statements with the beginning and ending balances. The Defense Information Systems Agency Financial Statements for 1996 were not reviewed.

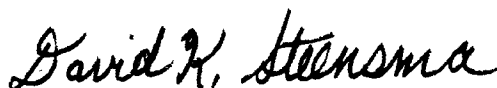
Accounting Principles. The Fund's financial statements for FYs 1997 and 1996 were to be prepared in accordance with Office of Management and Budget (OMB) Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993, as supplemented by OMB Bulletin No. 97-01, "Form and Content of Agency Financial Statements," October 16,

1996. These Bulletins incorporate the Statements of Federal Financial Accounting Concepts and Standards recommended by the Federal Accounting Standards Advisory Board, which are approved by the Secretary of the Treasury; the Director, OMB; and the Comptroller General of the United States. Footnote 1 of the Fund's financial statements discusses the significant accounting policies that the Defense Information Systems Agency followed in preparing the financial statements.

Internal Controls. We reviewed the internal control structure of the Fund and obtained an understanding of the internal control policies and procedures. In addition, we reviewed the implementation of the management control program by the Fund managers. We performed applicable tests of the internal control structure to determine whether the controls were effective and working as designed.

The internal control structure needs improvements in accounting for and managing resources, ensuring compliance with laws and regulations, and ensuring that the financial statements are free of material misstatements. For example, management needs to strengthen internal controls over the tracking of property, plant, and equipment. The Annual Statements of Assurance of the Defense Information Systems Agency did not identify any material weaknesses in accounting or financial reporting. However, the Annual Statements of Assurance of the Defense Finance and Accounting Service identified material weaknesses in undistributed and unmatched cross-disbursing and interfund transactions and in accounting and reporting for the Defense Working Capital Funds.

Compliance With Laws and Regulations. We assessed compliance with laws and regulations related to the financial statements. Management generally complied with the laws and regulations; however, improved compliance is needed for the \$50 million in contingent liabilities for the Communications Information Services Activity and in accounting for the unbillable costs of services for the Defense Megacenters. Proposed adjustments in the areas mentioned would have a material impact on the financial statements. In addition, under the Federal Financial Management Improvement Act of 1996 and OMB Bulletin No. 93-06, Addendum 1, "Audit Requirements for Federal Financial Statements," January 16, 1998, our work disclosed that financial management systems did not comply with Federal financial management system requirements; applicable Federal accounting standards; and the U.S. Government Standard General Ledger at the transaction level.



David K. Steesma
Deputy Assistant Inspector General
for Auditing

